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Contemporary Economics and Business Association
at George Mason University
and
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THE UNITED STATES VERSUS THE LAW OF THE SEA

By Doug Bandow

The recent refusal of the Reagan Administration to sign the treaty adopted by the Third United Conference on the Law of the Sea ended a decade-long attempt to reach a consensus agreement on the uses of the oceans. The decision, reached after a year long review and a final negotiating effort in the Spring, has led to predictable criticism from home and threats from abroad. But any other decision would have sacrificed fundamental American interests for the illusory benefits of a fatally flawed international accord.

Despite the lack of public attention which has been paid to the admittedly complex law of the sea (LOS) treaty, the issue is vital. The oceans of the world transport our goods, feed our peoples, expand our scientific knowledge and can provide the natural resources to accelerate our economic growth and reduce our dependence for strategic materials on potentially unstable land-based suppliers.

The resources on the seabed are immense: there may be at least one trillion tons of manganese nodules, containing manganese, cobalt, nickel, and copper, in the Pacific Ocean alone. U.S. scientists have more recently discovered extensive deposits of polymetallic sulfides, which contain sulfer, lead, copper, zinc, and silver.

The effort to write a comprehensive agreement to govern the use of the ocean was sparked by President Truman's 1945 declaration of national jurisdiction over the continental shelf, and the subsequent haphazard extension of such national jurisdiction by other countries around the globe. The First Conference on the Law of the Sea was convened in 1958, and drafted four conventions dealing with jurisdiction and fishing. It was unable, however, to resolve questions of the breadth of territorial seas (traditionally three miles) and exclusive fishing zones. The Second Conference met in 1960, and it also met with failure.

As national claims further expanded, these issues were eventually conjoined with that of deep seabed mining, mining research, and others. The UN declared the seabed to be the "common heritage of mankind" in 1970, and the Third Conference organized in 1973. It took 11 sessions to conclude, the

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last of which ended on April 30, after approving the treaty by a vote of 130 to four, with 17 abstentions.

The treaty that resulted consumes some 175 pages and is made up of 439 articles. Among its more important provisions are increasing territorial sea limits from 3 to 12 miles, setting 200 mile exclusive economic zones, establishing rules for marine research, navigation, and pollution, and creating a regulatory system for deep seabed mining.

The Dispute over Deep Seabed Mining

The most serious problems with the treaty lie with Part XI, which covers deep seabed mining. The treaty would establish an International Seabed Authority (ISA), to regulate private mining, and an Enterprise, to mine the seabed for the ISA. The ISA would be governed by a one-nation, one-vote Assembly, and a 36-member Council, and would be given wide discretion to discourage private sector mining, and to favor the developing countries and other so-called disadvantaged states.

Some have charged that the U.S. is letting ideology overcome pragmatism, but there are very real philosophical interests at stake. Indeed, treaty proponents at home and abroad have been among the most rabid ideologues: the entire LOS process was an ideological battle to define the "common heritage of mankind." Whether the phrase meant open access, or controlled access, determined the direction of the entire process. Thus, our negotiators effectively foreordained the result of the Conference when they paid scant attention to ideology, essentially leaving the philosophical field to the developing countries and their allies.

The result was a collapse of the attempt by the industrialized countries to build an economically workable seabed system upon a philosophical foundation of sand. The Third World (represented by the "Group of 77" or "G-77") used its control of the philosophical high ground to rework the technical, economic, and pragmatic proposals of the West to reinforce its underlying ideology of common ownership of seabed resources and controlled access to the seabed.

Corporate Socialism

Indeed, the ideology eventually ratified by the conference was one far more extreme than even the traditional notion of common ownership with open access to all who wanted to use

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the resource. Instead, the treaty embodies the doctrine of equal ownership of the resources, irrespective the nation's interest in, contact with, or ability to use them, as well as the right to arbitrarily block others from using them. This doctrine of corporate socialism is extremely dangerous, and perverts the meaning and purpose of property ownership.

The treaty should have provided for a system of private property ownership for the development of previously unowned natural resources. The best claim for ownership lies with those who, in the Lockean sense, identify the resources and mix their labor and capital with them. Those who take risks to develop the seabed – not political leaders from far distant countries – have the best, and most moral, ownership claim.

Ironically, the system ordained by the treaty violates two other philosophical principles normally held dear by almost all Americans, including treaty supporters. The first is the principle of non-discrimination, to which most of the civil rights laws are directed. The treaty enforces significant discrimination against private miners, requiring them, in many cases, to subsidize the competing Enterprise. The effect is to deny equal opportunity to American citizens.

The second is related, and concerns the traditional abhorrence of monopolies, and particularly government monopolies. The very same measures that discriminate against private miners have the potential of giving the Enterprise monopoly power. Such a monopoly would be far more dangerous than any conceivable private monopoly because it, through the Authority, has the political means to strengthen its economic hold on the minerals market.

However, there are very real pragmatic reasons for opposing the treaty as well. It is popular to ascribe these concerns to simply giving in to the greed of the big mining companies, but nothing could be further from the truth. Seabed mining would benefit American consumers as well as business: economist Jim Johnston, in the Marine Technology Society Journal, estimated that seabed mining would yield economic benefits in the hundreds of millions of dollars in the latter part of this century, increasing to billions in the next century. Economic benefits would also inure to the peoples of the developing countries, since they are mineral consumers trying to develop.

Moreover, there is reason for concern as to the stability of some of the suppliers of potentially critical minerals for

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America's defense industry. Zaire, for instance, provides most of our cobalt, which is vital for the aerospace industry. Diversifying our suppliers would lessen the danger of a supply cut-off.

The simplest pragmatic reason for dumping the treaty is that it will prevent, not encourage, deep seabed mining. It is true that some treaty advocates, such as the former Deputy Chairman of the U.S. delegation, believe that no mining will occur in the absence of a treaty, and that American companies will be obliged to go under foreign flag to mine. This argument has cogence only so long as one believes that unsubsidized mining will occur under the treaty.

Disincentive to Private Enterprise

In point of fact, little, if any, purely private mining is likely to occur under the terms of the treaty approved in April. Though Elliot Richardson, for one, who headed the negotiations under President Carter, has written that the Western nations had succeded in creating "a framework for assured access to seabed minerals by our companies on fair and reasonable terms and conditions ... ," in fact the seabed regulatory system is enormously hostile to mineral development, and appears to be designed to prevent mining. Though almost any regulatory structure, as we have learned to our regret in our domestic economy, will hinder productive activity, misallocate resources, and create inefficiencies, the ISA is almost unique in the degree to which it discourages development.

Access to the seabed is controlled by the ISA, many of the stated objectives of which are affirmatively anti-development. Permission to mine would be subject to votes by the Legal and Technical Commission, which, despite its name, could have its membership stacked, and the Council, which would be dominated by developing countries. Thus, U.S. companies, despite America's disproportionate stake in deep seabed mining, would be dependent on the good will of countries which are its economic competitors or political adversaries for approval to mine.

To merely seek permission to mine, a company would have to obtain an exploration contract, survey two potential minesites at its own expense, allow the ISA to choose one, and then apply for a production authorization. The ISA could turn down the request if it chose to favor another competitor, such as a developing nation or the Enterprise, which wanted the site, or if it found that allowing mining would violate the

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so-called anti-monopoly and anti-density restrictions on the number of sites any one nation could have, or the overall limitation on mineral production set by the treaty.

Some treaty proponents have placed great faith in the Preparatory Investment Protection resolution, which is intended to protect companies making investments prior to the treaty coming into force some years hence. However, the resolution grandfathers them into this anti-mining treaty, not out of it. Thus, they will be under the jurisdiction of the ISA. Even worse, the resolution only applies to a specified number of companies; new entrants could not even avail themselves of the limited protection provided for existing miners.

Mining is discouraged in other ways as well. The treaty gives the ISA the power to mandate the transfer of mining and processing technology from private companies to the ISA and developing countries. Though compensation is to be paid, such a forced bargaining situation could hardly be expected to yield just compensation. Moreover, the ISA would determine how broadly to define technology, and the company would have no effective redress for the unauthorized disclosure of any of the technology, no matter how sensitive or secret it was. Some treaty proponents have tried to minimize this burden, by arguing that his power is unlikely to be invoked. Even if it is never used, the threat is enough to browbeat business. Indeed, there is no issue that has so angered the American business community, and appropriately so: proprietary technology is their private heritage, not that of the rest of the world, and premature disclosure will discourage technological development across-the-board.

Further, as noted earlier, private miners face significant discrimination by the ISA. They must donate a minesite and transfer technology to the ISA for the Enterprise, their home countries must finance the Enterprise through loans and loan guarantees, and they are subject to a host of levies that the Enterprise is exempt from, including an application fee, a fixed annual fee, and a production and/or royalty charge.

Finally, even if a private company found this system attractive enough to invest in, believing that it could extract enough minerals over the 20 to 25 year life of the minesite to make the operation pay off in an often uncertain minerals market, the company would have to accept the risk that all of its investment might be prematurely terminated, since the treaty provides for a Review Conference to meet 15 years after the

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commencement of commercial production under the treaty. A three-fourths vote of the member nations – 80% of which are G-77 members, and another 10% of which are members of the Soviet Bloc – could amend the seabed provisions in any manner desired, with the only recourse for a dissenting nation to denounce the entire treaty, an unlikely step. Given the consistent opposition to any private mining by the Third World (which originally proposed a monopoly Enterprise as the sole miner), it is likely that all private mining would be swept away.

Interestingly, no treaty proponent has offered a defense of this article; the *Washington Post* incomprehensibly suggested "why not let the lawyers handle it?", not realizing that the lawyers had handled it, which is why it is in the treaty. In fact, one prominent theretofore treaty proponent last Spring told G-77 negotiators that even he could not support the treaty without a requirement that the U.S. be required to approve any proposed amendments.

An Unfortunate Precedent

An equally compelling pragmatic objection to the treaty is the pernicious precedent which it will pose for future international economic and political negotiations. As noted earlier, the LOS process has been an ideological battleground. Unfortunately, most treaty proponents, aside from those who share the Treaty's socialist theology, simply choose to ignore this point. In reality, the LOS Conference is not an isolated negotiation, but rather, an integral part of an international network of conferences, organizations, and UN resolutions, through which the Third World has been pursuing the New International Economic Order (NIEO).

The NIEO is essentially based on the erroneous premise that developed nations have grown wealthy by exploiting developing ones, and therefore "owe" reparations. The developing nations want to control international organizations to enforce the redistribution of not only wealth, but also technology, natural resources, and information. Related proposals include the so-called Moon treaty, codes of conduct promulgated by the United Nations Conference on Trade and Development (UNCTAD), press restrictions proposed by the United Nations Educational, Scientific, and Cultural Organization (UNESCO), and business regulations from the World Health Organization (WHO), the United Nations Industrial Develop-

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ment Organization (UNIDO), and the Commission on Transnational Corporations.

The LOS treaty is important for the success of the NIEO because it would, for the first time in history, establish an organization, controlled by the Third World, to redistribute money and technology. It would promote the goal of international democracy for nations that are supremely anti-democratic, the notion of communal control over unowned natural resources, and allow terrorist organizations to share in the benefits of international agreements. Once the NIEO is legitimized by the LOS treaty, the repressive collectivist restructuring of international relations would become the new norm, leading to additional demands for redistribution under the control of the Third World.

Navigation Rights

The seabed articles are not the only ones in the treaty, of course; indeed, most treaty proponents argue that they are not the most important ones. For example, Richard Frank, former administrator of the National Oceanic and Atmospheric Administration, argues that "theoretical adverse implications" of the Treaty's precedential effects are insufficient to outweigh the substantive benefits to the U.S. from the navigation articles.

There is no doubt that, for years, the U.S. knowingly traded away the seabed provisions for the navigational articles. But that it did so does not mean that it rationally traded them away. Despite the common wisdom that the navigational articles enhance navigational freedom, there is substantial reason to doubt how much the U.S. really gains from the treaty. Navy Secretary John Lehman told the World Affairs Council that:

> " A careful reading of the draft convention also reveals that navigation interests are compelled to rely upon a highly complex assortment of treaty provisions. Informed opinion concerning the correct interpretation of those provisions is — to understate — quite varied."

The problem, of course, is that provisions with different interpretations provide weak protection for America's merchant marine and navy. Indeed, the treaty is ambiguous as to the level of navigational freedom allowed in the 200 mile economic zones, as to which straits are international, and whether or not submerged passage of submarines, a long-time goal of the navy, is allowed. The treaty even unambiguously retreats some from

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free navigation by allowing the temporary suspension of innocent passage in territorial seas for weapons testing.

But even if the articles were clear, how important would they be? Many observers believe that the treaty provisions will constitute the new customary international law, setting general standards that the U.S. will be able to take advantage of without actually signing the treaty. Some treaty proponents argue otherwise: nations may attempt to make a distinction between the customary international law that governs the U.S., and the treaty law that governs everyone else. But the better view appears to be that the U.S. will gain most of the navigational benefits in any case; thus, the navigational advantages to the U.S. of signing the treaty may in fact be near zero.

Moreover, economic and commercial interests make it likely that straits and archipelagic waterways will remain open to commercial navigation even in the absence of a treaty. Indeed, our experience is that they will remain open even with a war between nations with little respect for international law, such as Iran and Iraq. As for military navigation, given the geographic location and physical depths of the world's straits, and the current state of military technology, only a handful are important, and most are bounded by friendly states.

In any case, guarantees from the treaty are likely to have only a marginal impact. Rights of passage will be respected only so long as both parties believe it to be in their interest to do so. International relations is a history of agreements being ignored or tossed aside when one or another nation changes its mind; the Treaty even allows countries to withdraw.

More important to protect our navigation rights are our bilateral relations with the affected parties, and the existence of any bilateral treaties or informal arrangements. Even more important is our ability to enforce our right, and our willingness to do so.

Moreover, it seems fair to assume that neither the U.S. nor a coastal state would allow the presence or absence of rights in an esoteric treaty signed years before to stand in the way of protecting vital national interests. Only in the marginal cases, where neither side felt that the inconvenience and minor criticism they would receive for breaking the Treaty was worth the benefit of doing so, would the treaty likely have an effect. The effect, though very real – Defense Department personnel are always complaining that the State Department objects to

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beneficial naval maneuvers to avoid upsetting coastal states – is not critical. Such a marginal benefit does not outwiegh the very real treaty costs of discouraging deep seabed mining, and setting adverse precedents.

Other Considerations

The other provisions of the treaty offer even less reason to sign the treaty. The treaty does provide for ownership of the outer continental shelf, but its provisions for eventual revenue sharing will discourage exploration for the up to two trillion barrels of oil located below the seabed. The boundary provisions have been sharply criticized, and would hurt us in the Gulf of Mexico and the Bering Sea. The articles governing fisheries add little to American and customary international law, and are disadvantageous for American tuna fishers. The pollution articles, often praised by treaty proponents, actually may hinder the ability of coastal states to control maritime pollution, and do nothing about coastal-based sources of maritime pollution, the largest ones. And even treaty proponents admit that the marine research provisions merely codify the restrictive system now in place.

Three other arguments have been made for the U.S. to sign the treaty. One is that refusing to sign will cause significant foreign policy damage, giving the Soviet Union and its acolytes an opportunity to make massive propaganda gains. But while it is undoubtedly true that the U.S. will suffer some short-term diplomatic losses, the real questions are how severe and for how long? Just how important is the LOS treaty to most nations? The answer – consider how little interest the treaty has aroused in this country – is probably not much. Botswana will denounce us when it signs the treaty, and then go back to dealing with us. In fact, taking a firm stand against the extravagant demands that have been made on the U.S. may increase America's bargaining power in other contexts, yielding a net long-term diplomatic advantage.

Another contention is that if the U.S. allows "an historic global organization" to proceed without U.S. participation, demonstrating that "American influence, participation and leadership" are unnecessary, the U.S. will suffer the adverse precedent of an irreversible loss of influence. The problem with this argument is that it ignores what happened in the LOS negotiations. The rest of the world already decided that the

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U.S. was unnecessary; American influence was already lacking. If anything, the ability of the rest of the world to make such a system work without us would make them less likely to attempt to force us to pay and provide the technology for any new global schemes. It seems silly to suggest that the U.S. retains influence when it pays extortionate demands and participates with no power in an organization it opposed.

Finally, the most apocalyptic argument is that our refusal to sign the treaty undermines the pursuit of a stable international order, harms the prospects for international stability and justice, and threatens world peace. This vision rests on the unfounded assumption that an international agreement — any international agreement, however flawed, and whatever the substantive interests we have sacrificed — promotes international stability. In fact, an unfair agreement, such as this one, is more likely to promote friction than eliminate it.

But more important still is the type of global order being created. Order, if it is accompanied by immoral wealth redistribution and inefficient economic regulation, is not desirable. A better order would result from the rejection of the treaty: the spontaneous order that arises from voluntary cooperation and the marketplace. The order of freedom, rather than that of control preferred by the Third World, is a better promoter of world peace.

Once having decided to reject the treaty, the issue is not finished. The U.S. must work to create alternative arrangements to allow seabed mining to occur, if it is economically worthwhile. The first step is to amend the Deep Seabed Hard Mineral Resources Act (1980) to eliminate the prohibition on mining before 1988; our domestic industry should be encouraged, not discouraged, from mining.

The U.S. must also work to convince other industrialized countries not to sign, and eventually ratify, the treaty, while attempting to forge an agreement with them for mutual claim recognition and dispute resolution — the so-called Reciprocating States Agreement. Should this prove to be impossible, as it currently appears it may be, the U.S. should strive for informal arrangements to include at least dispute resolution for conflicting mining claims. The point the U.S. should make is that the real potential competitor to the other industrialized countries for minesites is the U.S., not the Enterprise; therefore, other countries seeking to mine should deal with the U.S.,

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not the Enterprise.

Finally, the U.S. must focus on the long-term. Though it is likely that most countries will sign the treaty, it is not likely that they all will ratify it. Most of the propaganda value for countries such as France and the Soviet Union will occur when they sign; the hard financial burdens, particularly without the U.S. providing 25%, will begin with ratification. Thus, there is an excellent chance that the ISA, once inaugurated, will only serve as the propaganda shell for a group of countries without the technical ability to mine, and the financial resources to run the system.

America's fundamental philosophical principles and national interests are worth defending. Only an outright refusal to sign the LOS treaty was consistent with those principles and interests. It is now incumbent upon the U.S. to construct a system to promote voluntary cooperation and exchange and encourage seabed development. Only a system of this kind will meet the interests of all of the peoples of the world, as distinct from the interests of the leaders of an ad hoc majority of the world's nation states.

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THE SOVIET CENTRAL PLANNING PROCESS: NEW METHODS AND CONTINUING PROBLEMS

By Thomas K. H. Laverty*

Introduction

While the Reagan administration has been attempting to revive a stagnating American economy suffering from one of the worst recessions of the postwar period, the Soviet leadership has been wrestling with a host of economic problems, including their perennial problem sector, agriculture. The price increases announced in Fall 1981 and the creation of the new district agricultural councils are clear signals that the Soviet centrally planned economy is experiencing difficulties and that the Soviet leadership has concluded that at least modest adjustments are necessary.(1)

The current difficulties of the Soviet economy are of obvious importance to Leonid Brezhnev and his colleagues in the Politburo. During the second half of the seventies, the rates of increase in GNP, investment, and total factor productivity were smaller than those rates during the first half, sometimes dramatically so.(2) In addition, the rates of growth experienced during the seventies were significantly smaller than earlier rates.(3) This slowdown in the Soviet economy has a number of implications for the Soviet leaders, several of them quite troubling. If the Soviets are unable to arrest the trends, the economic difficulties will prevent them from responding to the increasing consumer demand. They also may imperil the Soviet ablility to subsidize the economies of the Eastern European countries.(4) Finally, the economic problems, of which the price increases and agricultural councils are merely signs, may make matching the projected increases in American defense spending an extremely troublesome prospect.(5)

The performance of the Soviet economy is also of great importance to the United States and its allies. The performance of the economy may influence the Soviet ability to maintain their presence in Afghanistan or a Soviet decision to intervene in Poland. Another clear example of that importance is the

* The author wishes to express his appreciation to Dr. William P. Snavely of George Mason University and to his wife, Jessica H. Laverty, for their assistance during the preparation of this article.

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potential impact of Soviet petroleum production on the world petroleum market. A decline from the current level of production, the highest in the world at 12 million barrels per day, would affect the Soviet ability to supply their Eastern European satellites and could force the Soviets into world markets to satisfy their domestic demand for energy.(6)

This economy that is of such interest to Soviet and Western leaders alike is one which has been centrally planned for more than 50 years. The central planning mechanism encompasses nearly all of the major segments of the world's second largest economy, with two major exceptions, the underground economy and private agricultural plots. The purpose of this article is to examine that central planning mechanism. It will consider the origins of the system of centralized planning, its current structure and functioning, and the potential for reform of the system through the use of mathematical economics and computers. It will also examine two of the more pressing problems that confront the Soviet planners and evaluate the alternatives that the current group of Soviet leaders and their successors have for reform of the system.

In examining the central planning system, the focus of this article will be the work of *Gosplan*, the Soviet State Planning Committee, in developing the overall annual and five-year plans that govern the functioning of the Soviet economy. Thus, the emphasis will be on the allocation of resources among the various sectors of the economy through the use of material balances planning. Because prices play a far smaller role in the allocation of resources in the Soviet economy than they do in Western economies, this paper will give far less consideration to Soviet pricing policies.(7) Although central financial planning and control has an important function in Soviet central planning, it too will receive less coverage in this paper than it otherwise might deserve.(8) Finally, this paper will not examine, except incidentally, the function that central control of foreign trade has in the central planning system.(9)

Background of the Soviet Central Planning System

Origins of System under Stalin

During the twenties the Soviet economic system underwent an extraordinary series of changes, passing from the chaos of War Communism (1918-1921) to the mixture of markets and

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socialism under the New Economic Policy (NEP)(1921-1928) to the central planning and forced industrialization/collectivization of the First Five-Year Plan in 1928. From 1924 to 1928 there was an extensive debate within the Communist Party over the proper pace for industrialization of Russia and over the proper role for central planning in that process. The viewpoints within the debate ranged from those on the Left, such as those of Preobrazhensky, who advocated rapid industrialization(10) to those on the Right, such as those of Bukharin, who advocated a more balanced approach that did not favor industry or agriculture.(11) Stalin, after a series of complicated political maneuvers, managed to isolate his political foes within the Communist Party. At the conclusion of the process, Stalin adopted a program of rapid industrialization that was even more ambitious than some of the programs put forward earlier by the Left.

Stalin's decision on industrialization resolved the dispute, which had been raging within Party circles since Lenin's death in 1924, over the proper role for central planning in the socialist economy. The dispute concerned whether market forces were to set limits on the plan (the genetic approach) or the plan was to override the market in pursuit of the goals of the planners (the teleological approach).(12) The former approach involved a type of indicative planning that was to be based on forecasts of consumer demand and placed heavy reliance on market forces. Stalin's decision to pursue rapid industrialization involved the Soviet state heavily in all sectors of the economy. As a consequence, it was necessary to shape a mechanism to oversee and regulate the planning process from the various state planning agencies extant in the mid-twenties.

From the array of organizations concerned with the planning process, which included the Supreme Council of the Economy (VSNKh), *Gosplan* USSR, ultimately emerged with the responsibility for overall coordination of economic planning. Begun in early 1921, *Gosplan* had limited influence during its first five years of existence.(13) *Gosplan* broadened its responsibility when it developed the control figures, or tentative output goals, for the year 1925-1926. These control figures gradually assumed greater significance, until they were embodied within the First Five-Year Plan as the basis of the national economy in 1928. While *Gosplan* was responsible for the overall output targets, VSNKh was responsible for operational planning at

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the enterprise and trust levels. The mechanism there was the *tekhpromfinplan* (the annual technical, production, and financial plan) of the individual enterprise.(14)

By the time of the adoption of the First Five-Year Plan, *Gosplan* was functioning as the central body for coordinating planning. *Gosplan* prepared the annual control figures, with which operational plans were coordinated, and allocated materials through a system of material balances. The system of material balances involved insuring consistency between output targets, on the one hand, and the planned input requirements and final uses, on the other hand.

The implementation of the central plan was the responsibility of VSNKh for much of the period until the establishment of the ministry system in the mid-thirties. After that time, the production departments of the ministries *(glavki)* oversaw implementation of the plan at the enterprise level. For the enterprise manager the principal concern was achievement of the success indicators *(pokazateli)*, which generally were expressed in terms of product output. Until 1959 managerial success was measured almost exclusively in terms of the output targets.(15) Consumption standards were used as a device for controlling production and limiting waste. These input coefficients served as rough measures of efficiency, but their precision was limited because of their degree of aggregation.(16)

The system of material balances was supplemented by central control in two other areas, price administration and financial planning. The central price administration used a number of techniques in support of the physical, or material balances, plan. One device was setting retail prices at levels to clear the market. This was done through the turnover tax, a differentiated sales tax that also served as a primary source of state revenues. Through the turnover tax the state was able to estract the excess purchasing power of consumers that existed because of the limited supply of consumer goods and services.(17) Agricultural prices were set low to maximize the flow of food and raw materials to workers and enterprises. Industrial wholesale prices were adjusted to encourage heavy industry.(18)

The financial plan, which was meant to serve as an adjunct to the physical plan, was and is administered by the Ministry of Finance and *Gosbank* (the State Bank). The financial plan for each enterprise, which included such devices as cost reduction targets, wage bills, and credit plans, served as another means

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for central control of the enterprise.(19) In addition, *Gosbank* supervised the financial aspects of all interfirm transactions, thus enhancing the level of central control. The financial plan has continued to play an important role, despite the priority given to output plans, According to one view:

> ... financial targets have remained important to the planners because they serve to enhance the planners' control over enterprise operations. In the Soviet terminology, this is called *ruble-control (kontrol' rublem)*, a system that works as follows: because the financial plan is the monetary counterpart of a firm's input and output plans, deviations from the financial plan should signal deviations from the physical plan.(20)

The Postwar Period to 1965

The postwar period under Stalin was spent recuperating from the devastation of four years of war. Very little tinkering was done with the Stalinist model of the economy while the Great Dictator was alive. Furthermore, as the fate of war-time economic administrator and Politburo member N. A. Voznesenski indicates, it was risky even to express disagreement with the Party line on economics laid down by Stalin.(21) The restoration of industrial and military capacity was Stalin's central concern and central planning was his mechanism.

Stalin's death in March 1953 brought no immediate changes to the central planning mechanism or to the ways in which the plan was implemented. The most important consequence of Stalin's death was that it was permissible for the first time in a quarter of a century to discuss the possiblility of economic reform without the fear of reprisal. As Khrushchev consolidated his power, it became increasingly more acceptable to discuss means of economic rationalization in the economic journals. Such topics as decentralization, enterprise rights, and the failings of the ministry system were examined. Methods of strengthening the *khozraschet* (economic accounting) system fo enterprise management also were considered.(22)

In terms of the central planning process, the Khrushchev era is important for two reorganization efforts that occurred during the period. The first effort (during 1954-56) involved a reduction in the number and an increase in the aggregation of the indicators in national plans for output, supply, and capital investment. The purpose of the simplification was to increase

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the flexibility of the individual ministries, with the expectation that individual departments and enterprises would ultimately share in this flexibility.(23) The second and more celebrated of Khrushchev's reforms was the creation of the *sovnarkhozi*, or regional economic councils, which replaced the ministries. Khrushchev's aims were to dismantle the ministerial empires that had been created and to allow for more effective consideration of regional factors in the planning process.(24) After Khrushchev's ouster in 1964, the *sovnarkhozi* were replaced by ministries functioning on an industry-by-industry basis.

Neither attempt at restructuring the Soviet planning and management system under Khrushchev had lasting impacts on the Soviet economy. Far more important than either of the decentralization efforts for the future direction of the system was the lengthy discussion on the reform proposals of E. Liberman. The discussions, which took place from 1962 to 1964, were important because they laid the groundwork for many of the changes introduced by Kosygin in September 1965. The focus of Liberman's proposals was the enterprise and its functioning under the plan. He criticized, as had others earlier, the numerous and often contradictory success indicators to which the enterprises were subject and the distortion produced by the use of the gross output indicator as one of the principal success measures.(25) He urged the establishment of long-term profitability norms, which would be defined in terms of the relationship of profit to capital and which would be applied across industrial branches or groups of enterprises as a measure of productive efficiency. He also advocated preparation of the plans by the enterprises.(26)

Although Liberman focused his reform proposals on the enterprise, critics of these proposals were more concerned about the implications of his proposals for the socialist planning process. In particular, the critics expressed concern that Liberman's proposal of a uniform incentive scheme based on profitability would work to the detriment of heavy industry. The critics argued that leaving wages and labor plans up to the enterprise, as Liberman had suggested, would complicate the task of drawing up national manpower, financial, and consumer goods plans. Liberman's proposals engendered suggestions from Birman that enterprises be allowed to plan their outputs on the basis of orders from other enterprises, and from Nemchinov

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that a charge on capital should be introduced and that a wide range of prices should be decontrolled.(27) After a period of resistence from conservative circles during early 1964, the tide turned in favor of Liberman's proposal of profitability as the primary success indicator and in support of the need for economic reform, particularly at the enterprise level.(30)

The debates on economic reform begun under Khrushchev continued under Brezhnev and Kosygin during the 11 months from Khrushchev's ouster to the announcement of the Kosygin reforms. In addition, the new leadership continued a group of experiments at the enterprise level. These experiments involved the ability of the enterprise to adjust prices and to plan according to orders or "direct contacts" (the Bolshevichka-Mayak experiment), (31) and included judging the success of some enterprises by profit and profitability (the Nevski and Lvov experiments).(32) It was these experiments, particularly the one at the Nevski Machine Building Plant in Leningrad, that served as an important basis for the Kosygin reform.

The Reforms under Kosygin

In a speech at the Communist Party plenum on September 27, 1965, Premier Alexei Kosygin presented a blueprint for economic reform. He first detailed a series of problems and conditions faced by the Soviet leadership in the economic sphere that required reform. These included the increased scale and complexity of the economy, the need to introduce innovative methods of production more rapidly, problems in agriculture and the consumer goods sector, increasing capital/output ratio and declining labor productivity, and problems with plan fulfillment in various sectors of the economy.(33) The scheme presented by Kosygin was in many respects quite complicated, but its thrust was to increase the role of enterprise managers in achievement of plans by increasing managerial incentives and flexibility.(34)

One important element of the plan was a reduction in the number of targets set from above. The list was reduced to eight targets from the earlier system of twenty to thirty targets.(35) The most important change in the list was the replacement of gross output as the primary indicator of managerial success with an actual market production or sales indicator. Another important aspect of the change in the list of success indicators was the increasing importance of profits as a measure. This measure

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was to be important because the size of three economic incentive funds was tied to achievement of high levels of planned profit. Those funds were the Production Development (Investment) Fund, the Social-Cultural Measures and Housing Fund, and the Material Rewards (Bonuses) Fund. The creation of the funds was intended to increase the importance of profits for managers and workers and to give the manager greater freedom in making investment decisions.

To encourage more efficient use of capital, two changes were introduced. An interest charge of six percent was to be levied on fixed and working capital beginning in 1966. Furthermore, a larger proportion of capital investment was to be financed by interest-bearing loans from *Gosbank*, rather than by grants from the state budget. (36)

A third area of change was in the number of indicators in the labor plan. The number was reduced from four to one, the magnitude of the wage fund. The factory manager was thus given more authority to divide up the wage fund in order to increase labor productivity. (37)

In addition to these changes, the Kosygin reform proposals introduced a number of organizational changes into the planning and management system. Three new state committees were created to handle the functions of supply *(Gossnab)*, establishment of prices *(Gostsen)*, and technological innovation *(Gostekhnika)*. (38)

In the area of planning itself, several things were emphasized. The scientific basis of planning was to be improved, principally through the use of computers and mathematical planning. Long-term planning and the planning of regional complexes were to be increased.

Before discussing the implementation of the Kosygin reforms and assessing their impact, two other changes in the system should be mentioned. One change, which was originally proposed by Kosygin in 1965, was the combination of industrial enterprises into production associations *(obedineniia)*. These associations were expected to be more efficient because they could take advantage of economies of scale and could reduce administrative overhead. The amalgamation of enterprises into associations proceeded slowly in the sixties and early seventies and it was only after a joint goverment-party decree in April 1973 that the process began to move at a significant pace. (39)

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The second significant change that occurred during the implementation of the Kosygin reforms was the industrial price reform in 1966-1967. The price increases "notably reduced the number of planned loss enterprises and to some degree the profitability differentials among branches of industry,"(40) but price reforms did not revise prices in a manner that would allow enterprise profitability to be used as a fair measure of managerial performance. The reforms produced this result because the new set of prices were calculated with the traditional formula of average cost plus a standard profit margin. As a consequence, the prices did not necessarily reflect all factor payments, including those for improved equipment, locational advantage, and high quality raw materials.(41)

The Central Planning System since 1965

The original timetable called for conversion of the Soviet economy to the new system by 1970, with one major exception, agriculture. Although the original timetable was not met, more than 80% of the industrial enterprises, with more than 90% of the total output, staff, and profit, were formally converted to the new system by the end of 1970.(42) The most significant problems were the construction organizations and the supply oragnizations, of which only 10% were operating under the new system by 1971.(43)

One of the most important effects of the reform has been to increase the importance of profits as an economic lever, particularly for factory managers. Profits have increased in proportion to investment and costs in the financial plans. The proportion of retained profits has increased from 30% or less to nearly 45%.(44)

Although the importance of profits has increased, there continue to be problems with the economic incentive funds. Since 1971, restrictions have been placed on the size and uses of the incentive funds. Achievement of more and tauter targets was made a condition of the growth of the funds. Deductions from funds were authorized as penalties for failure to achieve specific targets.(45)

Other problems have arisen with the Production Development Fund. This fund had not achieved its expected importance in financing capital investment by 1975.(46) Two difficulties have restricted its impact. Because of rule changes, the ministries established the proportion of enterprise funds allocated for

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this fund in accordance with the level of bank credits to be used for decentralized investment. As a consequence, decentralized investment from the fund receives the same treatment as capital investment done with a budgetary grant, effectively eliminating the manager's discretion in investment. The second difficulty has been with the supply network, because 97% of all supplies are distributed in accordance with the physical allocation process.(47) As a result, managers are unable to purchase investment goods on any sort of open market. The net effect of these difficulties has been that decentralized investment's share of total investment, which was 12% in 1965, rose to 20% in 1972 before falling to 12% in 1976.(48)

The reform has experienced other reverses in the decade and a half since it was introduced. Because of intrusions in labor planning by the administrative hierarchy and due to pressure from the trade unions, managers have been unable to exercise the flexibility that the reduction in the number of labor plan indicators was intended to give them. An expansion in the list of enterprise targets has also restricted managerial flexibility greatly. Among the targets that have been added to the list since 1970 are goals for labor productivity, gross output, quality improvement, fuel economy, and the introduction of new products.(49)

Despite the reformers' intentions that greater decision-making authority should be granted to associations and the enterprises, the ministries have managed to retain much of their pre-reform power. A clear example is the supply system. *Gossnab* was created to replace the ministerial supply organs, but by 1978 *Gossnab* was responsible for only one-half of the rationed producer goods.(50)

The period since 1970 has witnessed a reversal of much that was introduced between 1965 and 1970 in the name of reform. The thrust has been away from reliance on economic incentives and managerial flexibility. The direction has been instead toward increasing direction of enterprise activity from the center. The emphasis has been on new planning methods, such as the formulation of new scientific norms and automated plan calculations.(51) It is to a discussion of some of these new planning methods, particularly the mathematical methods and the use of computers, that this article now turns.

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Mathematical Economics, Computers, and the Central Planning Process

Historical Background

After the chaos created by revolution and civil war, mathematical economics flourished briefly. There was vigorous discussion of the problems associated with rapid industrialization and of economic-mathematical models relating to them. Useful work was done in statistical studies of the development of branches of the national economy, with the development of macroeconomic models, and in the development of models of consumer demand.(52) Pioneering work was done by L. Kantorovich (linear programming) for which he later received the Nobel Prize for Economics. Important contributions were also made by Feldman, in macroeconomic modelling, and by A. Konius, in the investigations of consumer behavior.(53) Stalin brought the renaissance to a close in 1929, with his rejection of a role for political economy in the planning process. In his view, decisions were to be made by the directing bodies of the economy, *i.e.*, the political leaders and the central planning organs.(54) Although some serious contributions to economic thought were made during Stalin's tenure, notably by Kantorovich and Novozhilov, they were largely ignored by the Soviet decision-makers of the time.(55)

It was not until after the 20th Party Congress (February 1956) that the study of economics, in general, and of mathematical economics, in particular, could be resumed. Academician V. Nemchinov played an important role in re-establishing the respectability of the mathematical methods, often by pointing to their Russian roots in the work of Leontief and Kantorovich. It was under his direction and with his prodding that some of the first work on input-output tables was done. He served as editor of a series of volumes entitled *The Use of Mathematics in Economic Researches* which collected many of the important papers done over the previous three decades.(56) The first volume of the series appeared in 1959, the same year in which Kantorovich's influential work, *Economic Calculation and the Best Use of Resources*, was published. Others who played prominent roles in the development of Soviet mathematical economics during this period included Novozhilov, Konius, and Vainshtein.

Two events in the first half of the sixties gave evidence of

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the institutional acceptance of the contributions of the mathematical economists. One was the establishment of the Central Economic Mathematical Institute (TsEMI) in 1963. Throughout the remainder of the sixties and into the seventies TsEMI would serve as the source of numerous proposals for the application of mathematical methods and computers to the planning system.(57) The second event was the award of the Lenin Prize to Kantorovich, Novozhilov, and Nemchinov. With this brief historical survey in mind, we will now consider three important aspects of the application of mathematical economics to the planning process, input-output analysis, linear programming, and the use of computers.

Input-Output Analysis

As with other areas of mathematical economics, the late fifties were a time of ferment for Soviet economists interested in the use of input-output analysis. Wassily Leontief's book on the structure of the American economy was translated and published in 1958. In the same year the first input-output table in the USSR was produced in the computer laboratory of the Academy of Sciences.(58) A computer center was established within *Gosplan* with the principal task of constructing input-output tables. Groups within *Gosplan*, the Central Statistical Administration (TsSU), the Academy of Sciences, and ultimately, at TsEMI were set up to work with input-output analysis and to evaluate its usefulness for the planning process.

Over the course of more than two decades of work, a substantial number of tables were developed.(57) The tables looked at the Soviet economy as a whole and examined the economies of individual regions within the Soviet Union. The analysis produced a number of useful results and clarified many aspects of the way in which the Soviet economy functions, but it failed to emerge as potential replacement for the traditional material balances approach to planning. In fact, it has not been as important a supplement to the material balances approach as some had originally hoped, because the two approaches are incompatible in some respects.

Despite the early optimism about input-output analysis, the expectations that *Gosplan* would be reorganized and that input-output analysis would serve as the foundation of national economic planning proved to be unfounded. The reasons for

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this failure are varied. One group of factors can be classified as institutional. Within this group, the first factor has been the conservatism of the planning organs within *Gosplan* and the ministries. A second institutional barrier to greater reliance on input-output analysis has been the fact that planning in the Soviet Union is done along organizational lines, ministry by ministry, whereas adoption of input-output analysis would require planning on the basis of commodities. This presents difficulties because a single commodity is often produced by a variety of ministries at various levels of the planning hierarchy (Union, Union-Republic, or Republic ministries).(60) A third factor has been the large element of negotiation and compromise that characterizes the planning process. The introduction of objective, precise estimates of production capacity and input needs into the process would jeopardize this element of the process. In addition, the results from input-output analysis might contradict the priorities that the political decision-makers have granted for certain sectors of the economy or or certain regions of the country.

Another set of factors, technical in nature, has limited the role that input-output analysis has played in Soviet planning. One very important aspect is the aggregation problem. The upper limit on the size of the matrix for the analysis seems to be 1000 x 1000. In contrast, Soviet planners at the top level of *Gosplan* work with twice as many material balances. The total number of balances that are developed by planners at all levels exceeds 15,000.(61) A second problem area is the selection of direct input coefficients for use in the tables. One difficulty is the reliability of the coefficients, especially regarding technical progress in the future that may drastically revise production relations.(62) A second difficulty has been the use of progressive input coefficients, i.e., ones that incorporate overly optimistic assumptions about the availability of certain inputs, such as fertilizer for agriculture.(63)

A third technical barrier to integrating input-output analysis into the national planning process has been differences between plan indices and indices from input-output tables. There are several ways in which the sets of indices differ. The plan calculations disregard the output of small industrial enterprises that are controlled by such groups as state and collective farms, building trade and transport organizations, and consumer cooperatives, while input-output analysis is concerned with the

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entire output of particular commodities.(64) A second element pertains to the differences in product classifications. In one case, under half of the products in the output table were included in the nomenclature for the plan.(65) Furthermore, plans and tables are calculated on the basis of different sets of prices (producer prices v. consumer prices). A final technical problem is the assumption of constant returns to scale that is used in input-output analysis. This assumption can produce unreliable coefficients when the returns to scale within a particular industry are either increasing or decreasing.

In addition to the institutional and technical obstacles mentioned above, one very important practical obstacle to the use of the tables in planning is the failure of the tables to account for significant components of the output of important products. For example, one table accounted for the one third of the use of electricity by attributing it to "other productive uses."(66)

Despite all of the drawbacks discussed above, input-output analysis has had some positive impacts on Soviet economic planning. The most extensive use has been *ex post* tables in analysis and research, while *ex ante* tables have been used to some extent in long-range, perspective planning. According to one view, the experience with both types of tables has been valuable in orienting Soviet economists and planners toward quantitative methods and in modifying their thinking on such topics as the role of general equilibrium analysis and the importance of rational choice in economic policy.(67) In addition, the development of the tables has caused the Soviet planners to reassess the flows of economic information within their system and has made them more aware of the shortcomings of the statistics on which input-output analysis must be based. As a consequence, the Soviet planning agencies are making increasing use of sampling techniques as a means of gathering the necessary information.(68) Finally, the development of the regional tables has provided regional planners and policy-makers with sources of information that hitherto were unavailable.

Linear Programming

The second of the important mathematical methods which has had an impact on the Soviet planning process is linear programming. As has been noted earlier in this paper, the most

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important contributions in this area have been made by L. V. Kantorovich. The emphasis in the work of Kantorovich, particularly in *Mathematical Methods for the Organization and Planning of Production*, was on linear programming as a means of improving the efficiency of production through reallocation of resources. The method has been useful in a number of areas which Kantorovich identified in 1939, such as scheduling production, organizing transportation and improving the use of arable land.(69) Kantorovich later interpreted linear programming as applicable to the national planning process. In his view, the process of planning could be regarded as a process of optimization.(70) The work with linear programming over the last four decades has led some Soviet economists to draw a number of conclusions that would have important consequences if applied extensively to the Soviet planning process. The conclusions concern such concepts as prices as a mechanism for efficient resource allocation, rent payments for natural resource use, interest charges for the use of capital goods, and the use of profit as a criterion for judging the efficiency of an enterprise. Some of the conclusions have been quite controversial, becouse they run contrary to the accepted Marxist-Leninist dogma, while others were given at least partial recognition in the Kosygin reforms.

1) Prices and Resource Allocation

Some of the most important conclusions that the Soviet mathematical economists have drawn from their studies of linear programming concern the role of prices in a planned socialist economy. They have argued that market-determined prices are an integral part of an optimal system, rather than an artifact of capitalism that will wither away under communism.(71) From their perspective, the shadow prices that are produced through linear programming are a guide to rational decision-making, allowing managers and planners to evaluate the opportunity costs of various approaches to producing a set of commodities. The mathematical economists also have argued that more flexibility is needed in price setting in order to reflect changes in the patterns of production and in the scarcity of inputs. They also have urged a change in the formula which is used in setting prices. The traditional approach to price setting has been a cost-plus basis (labor and material costs and depreciation plus a small fixed percentage of cost as profit).

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Some economists have urged the use of a profit margin based on the value of capital used in production of the output.(72)

2) Charges on the Use of Scarce Resources

One of the general conclusions that the economists drew from their experience with linear programming was the importance of charges for the use of scarce resources as a mechanism for allocating those resources efficiently. The concept has applications for the use of capital, labor, and natural resources in the production process. First, the economists recommended that enterprises be required to pay rent for the use of scarce natural resources. Rent serves as a measure of the labor saving accrued by using a natural resource of a particular fertility (in the case of agricultural land) or productivity.(73) The rent payment thus serves as a stimulus to better management of the resource and rational use of it in production.

A second input on which the economists recommended the imposition of a charge was capital goods. They have argued that capital is a scarce resource and that imposing a charge on its use would foster its conservation. They also have suggested that such a charge will encourage managers to use the existing capital investment more effectively rather than seeking to add to their reserves of productive capacity.(74)

The mathematical economists have pointed to labor as another resource for which a charge might be appropriate. They reason that enterprises should make payments to the state for the use of certain categories of labor that are scarce. Once again, they argue that the charges will make the enterprise economize on its use of these categories. Conversely, they suggest that the state should subsidize enterprises for the use of surplus categories of labor. Their objective in making both recommendations is to encourage the efficient allocation of labor resources.(75)

3) Enterprises and Profits

A third area in which the work on linear programming has had important implications is the evaluation of enterprise activity and managerial success. This is one of the areas in which the Kosygin reforms gave partial recognition to the arguments of the mathematical economists. The thrust of the economists' reasoning is that profit is the most useful synthetic success

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indicator for evaluating socialist enterprises and their management. In their view, profitability of a production activity should be the chief measure of whether it should be undertaken. The same measure would be used to measure the effectiveness of enterprises and larger economic units.(76)

4) Investment Decisions and Allocative Efficiency

Kantorovich and his fellow mathematical economists argued that making decisions about investments is one special case of the general problem of allocating resources effectively, with the time element one factor in the decision. They urged the use of a rate of interest as the method for comparing the costs and benefits of projects that are incurred or accrued over a period of time.(77) This suggestion ran counter to the traditional Soviet use of recoupment periods as the method for comparing alternative projects.

5) Devolution of Decision-Making

One of the more important results of the work with linear programming has been the conclusion that decentralized decision-making is consistent with an optimally functioning socialist economy. The basis for this conclusion is the mathematical idea that the summation of sets and the maximization of a linear function are equivalent operations. What this means economically is that dividing a process of production among a number of procedures doesn't affect the total volume of output, under conditions of constant returns to scale and perfect competition.(78) Furthermore, some of the mathematical economists have argued that decentralization has an advantage when the central planners lack the necessary information to develop an optimal plan. In this view, achieving a nationally optimal plan can be viewed as a process of solving a series of local optimization problems, in which local decision-makers are better positioned to achieve the local optimum.(79)

The changes advocated by the mathematical economists received partial acceptance in the Kosygin reforms, but as was noted above there has been a significant reversal since the early seventies, especially regarding the role of profits. The consequence has been very modest influence for linear programming on the planning process.

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Computers and the Planning Process

Developments in the computer field fueled the optimism of the mathematical economists in the late fifties and early sixties in their efforts to introduce input-putput analysis and linear programming into the planning process. Among the first developments in this field was the acceptance of cybernetics as a field of science consistent with the precepts of Marxism. This process occurred during the fifties after Stalin's death and it paralleled the growing acceptance of the work of the mathematical economists during this period.(80)

During the early sixties the focus was on the automation of production through computers, *e.g.*, through the use of automated process controls, rather than on the use of computers as a tool for planning and management. An important event during this stage was the establishment of a Chief Administration under the Council of Ministers to oversee the introduction of computers and management systems into the economic system. Work by such groups as the Institute of Cybernetics and TsEMI was undertaken on the development of automated management systems and on models of computer networks as the basis for the national planning system.(81) Proposals for the development of a computer network became involved in the then lively discussions on the possibilities for economic reform.

Shortly after Kosygin announced his proposals for reform of the economic system, the Central Committee and the Council of Ministers issued a joint decree (March 1966) that delineated the responsibilities of the various organizations involved in the development of automated management systems and of the network of computers for use in planning. Although this decree is noteworthy because it signaled very clearly the leadership's recognition of the importance of cybernetics and computers for management of the economic system, it proved problematical because of the widespread and often unclear division of responsibilities that it outlined. This drawback led to a series of disputes among the various organizations. One of the biggest disputes was simply over which organization, *Gosplan* or TsSU, had the primary responsibility for development of the network. Other disputes concerned whether to introduce the computers and automated systems at the top or bottom levels of management in the early phases of the network's development and whether to organize the network on a ministerial or regional

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basis.(82)

Targets for the production of computers and the introduction of automated management systems were included in the plan for the first time in 1967, but it was not until 1971 that the role of the computer network was clarified. At the 24th Party Congress, the leadership committed the Soviet Union to an ambitious program for the establishment of a statewide automated information system (OGAS) and for the installation of nearly 1600 automated management systems during the Ninth Five-Year Plan.(83)

The Soviet planners encountered two barriers during the early seventies in their efforts to implement the program. One was the arrival of the third generation of computers. This was positive in that it meant greater computer capabilities were available to users of the new generation. The drawback was the limited availability of third generation computers during the Ninth Five-Year Plan.(84) The second barrier was the reorganization of enterprises into production associations pursuant to the 1973 decree. The reorganization created some uncertainty as to how automated management systems were to be introduced at the lower levels of management.(85)

One other factor concerning the implementation of the plan during the early seventies was the proposed experiment with territorial computer centers. In 1973 *Gosplan* announced a plan for establishing three centers that would provide services to enterprises of different ministries within a particular area by using TsSU computer facilities. Administrative and financial problems hampered the effort and, as a result, none of the 20 facilities planned for construction during the Ninth Plan was completed by 1977.(86)

In assessing the plan to establish OGAS, the most obvious feature has been the failure to meet deadlines. This is due in large part to the infeasible initial targets. The failure to settle on a clear conception of the role of the computer network and the failure to set up a clear structure of authority for the project also contributed to the project's problems. A consequence of the failure to establish clear lines of authority has been the incompatibility of different subsystems within the overall system.(87) Nonetheless, some progress has been made, particularly at the top levels of the planning system.(88) It is obstacles such as incompatible systems, the inadequacy of computer hardware, and the failure to use existing hardware

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completely that make the goal of a nationwide network of computers as the basis of national economic planning and management something that is unlikely to be achieved until the 1990s.(89)

Problem Areas for the Soviet Central Planners

In the previous two sections of the paper we have examined the Soviet central planning system, its development over five decades, and the impact that progress in the fields of mathematical economics and cybernetics has had on that system, particularly during the last twenty years. We will now consider two sectors of the Soviet economy that are either particularly vexing or expecially important for the planners as they attempt to manage the economy. The first topic for consideration is the functioning of the second, or underground, economy in the Soviet Union and the complications that its existence introduce into the planning process. The second topic is the management of the labor force and the problems that demographic trends and the rural exodus bring to the planning process.

The Second Economy

The existence of a second, or underground, economy parallel to the centrally planned Soviet economy has received increasing attention in the West in recent years. The reasons for this attention are the evidence that the second economy is substantial and the potential impact of this segment on the way in which the planned socialist portion is run. According to one view, the second economy consists of any activity that is conducted directly for private gain or is in violation of socialist legality.(90) Another view emphasizes the extent to which an activity is not considered by the central planning organs in their attempts to account for the nation's production of goods and services.(91)

The reasons for the existence of the second economy, particularly in the production of consumer goods, are numerous. The most important is the failure of the planned economy to provide consumer goods in sufficient quantity and quality to satisfy the demand. This failure is due to the low profitability of consumer goods production, difficulties with the central supply system, and political decisions to devote the lion's share of national investment to defense and producer goods, such as

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steel.(92) The reduction in the level of state repression since Stalin's death has increased people's willingness to run the risks associated with participating in the second economy. Rising consumer expectations have increased the demand for goods and services provided by the second economy at the same time that they have increased consumer unwillingness to accept shoddy products from the planned economy. The rise in car ownership has fostered the second economy activity connected with the acquisition, use and maintenance of automobiles.(93) Increased foreign travel by Soviet citizens has made consumers more aware of alternatives to Soviet-produced goods and has provided greater opportunities for the smuggling of foreign-made goods into the Soviet Union. The liquidity of Soviet households has increased dramatically over the last two decades, thus providing Soviet citizens with the wherewithal to participate in the second economy.(94) Finally, the high tax rates on income from providing professional services have driven professionals into the second economy.(95)

The consumer sector of the second economy is important in six areas. One area is agricultural production on the private plots. This activity is typically undertaken by families on collective or state-owned farms. The production from these small plots, which constitute 3% of the agricultural land in the Soviet Union, accounts for more than a quarter of the output from Soviet agriculture. The plots are vital in the production of such commodities as potatoes, vegetables, fruit, and animal products.(96) The activity on the private plots is supplemented by the private efforts of Soviet hunters, fishermen, and brewers, who contribute substantially to the output of furs, fish, and alcohol in the Soviet Union each year.(97)

A second significant area is the provision of housing and housing repair services. It is important to note that approximately half of the Soviet population and nearly one quarter of the urban population lives in privately owned housing. Nearly a third of the housing finished each year is built by entities other than the state construction firms.(98) In addition, a large percentage of the housing repair and improvement is done by private sector repairmen.(99) One final aspect of the activity in this area is the gifts and bribes that are passed to bureaucrats responsible for state housing in order to get improved living quarters or simply to get housing.

A third sector with a high level of activity is the provision

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of services. In addition to repair work in housing, there are medical services offered by doctors and dentists and tutoring offered by teachers. Finally, there are transportation services offered by the owners of automobiles.

The three other segments of the second economy worth mentioning are automobiles, consumer goods, and finance. In addition to the sales of cars and the maintenance and repair services offered in the second economy, there is also a very active market in the sale of gasoline for private use. One estimate is that half a billion liters of gasoline were stolen from the state in 1972 and sold in the underground economy.(100) The consumer goods offered by the second economy range from televisions to clothing to books and recordings. The second economy's financial sector provides such services as lending, investment, and currency exchange.(101)

The second economy operates under a variety of guises. The form can be as simple as the acceptance of bribes and gifts by administrative personnel in charge of waiting lists or lecenses or the setting aside of choice goods by salespeople for sale to preferred customers at a higher price. There is black market speculation in a wide range of goods from blue jeans to literary classics.(102) There is illicit production of goods by moonlighting workers, by private tradesmen (the *shabashniki*), and by state enterprises, which divert materials intended for planned production to private gain and to trade with other enterprises for needed materials that are out-of-stock. The most egregious representatives of the second economy are the underground entrepeneurs who own one or more factories. These businessmen often use legal enterprises as a front for their illegal activities and bribe party and state officials extensively to protect their operations. Some of these adventurous individuals and clans have acquired fortunes amounting to hundreds of millions of rubles.(103) These underground operations rely on theft directly from state enterprises, on the purchase of goods diverted during transport, and on the purchase of black market goods, often from professional criminals.(104)

Needless to say, the existence of such a large and extensive underground economy has several effects on the planned portion of the Soviet economy.(105) Some of the effects are positive. The second economy supplements the planned economy by providing goods and services unavailable there. These second economy products provide an outlet for the increased

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purchasing power of the Soviet households. The existence of this outlet means that the material incentives that the Soviet regime has increasingly offered since the Kosygin reforms can serve as a more effective prod to greater efforts by the Soviet workers. The undergound market in producer goods performs a redistributive function that the state supply network, with its fixed allocation quotas, cannot perform.

There are, however, some very significant negative effects. The existence of such a large and pervasive underground economy operating with private gain as its guiding principle undermines the philosophical basis of the world's oldest socialist regime. Its existence saps morale, destroying confidence in the ability of the Soviet planned economy to provide the material benefits that have been promised for so long. The pursuit of private gain by a large segment of the working population detracts from production efforts in the planned sector of the economy. Finally, the operation of the second economy on a large scale and the widespread bribery and corruption lessen the degree of control that the central planners are able to exercise over the economy.

In responding to the second economy, the Politburo and the central planners seem to have two options. First, they can tinker with the current structure in several ways. They can increase the material incentives for workers so that moonlighting in the second economy will seem less attractive. They can also expand the scope of private legal activities, which would drive down the prices of those goods and services and would reduce the costs associated with law enforcement and corruption.(106) Their second option is reform of the central planning process to provide the flexibility and responsiveness that only seem possible now in the underground economy. Such reforms might be closely related to some of the conclusions that the mathematical economists have drawn from their work with linear programming and optimization theory. In any event, the existence of the second economy and of groups with a vested interest in its continued existence complicates any discussion of reform of the central planning process.

The Labor Force and Demographic Trends

1) Demographic Trends

While the central planners must cope with the impacts of

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the second economy now, they are only beginning to wrestle with demographic trends, particularly wtihin the labor force, that will seriously complicate planning in the Soviet Union later in this decade and in the nineties. Throughout the history of the Soviet Union, the central planners have relied upon the availability of a large labor surplus as one basis for rapid economic growth. In the first three or four decades after the decision to industrialize rapidly, much of this labor reservoir was created by transforming the peasantry into an urban proletariat. As the Soviet Union has become more of an urban nation, the birth rate has declined, sharing the experience of the other industrialized nations. The decline has been 30% since 1950.(107) Two factors that contributed to this trend were the loss of millions during the Stalinist purges in the thirties and the loss of 15 million males during World War II. What is creating a special problem for the Soviet planners is a 40% increase in the Soviet death rate since 1964.(108) Associated with this increase is the drop in the life expectancy for Soviet males from 66 to 63 years.(109) The net effect of these two trends is to decrease the annual net increment to the labor force (the number of new workers minus losses due to death, illness, and retirement) from 2.7 million in 1976 to 285,000 in 1986.(110) In addition, no relief is expected from these trends until the mid-nineties.

This decline in the size of the labor pool increment, when coupled with the long-term decline in the rate of Soviet capital investment mentioned at the beginning of this article,(111) poses a severe challenge to the Soviet planners, who must increase output without using large inputs of labor and capital, as they have done traditionally. An additional difficulty is that the demographic trends are not affecting all regions of the Soviet Union uniformly. The groups most heavily affected by the declines are the ethnic Russians and the other Slavic peoples. In contrast, the heavily Muslim populations of the Central Asian Republics are growing at rates five times that of the Russian Republic.(112) The planners are thus faced with a dilemma. They can locate new industry in those areas with the available labor or they can encourage migration to the European portion of the Soviet Union, the site of most existing industry. To date the policy makers have selected the former course of action, although neither option copes very well with the labor shortage in the short term.(113)

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2) Labor Turnover

While Soviet planners are faced with long-term problems in the management of the labor force, they are also faced with two more immediate concerns – high labor turnover and the rural exodus. The labor turnover problem is a sizeable one, costing the Soviet economy approximately four billion rubles in 1972.(114) The losses stem from three sources. The primary source is the lost work time for both people and machinery. There are also the wasted resources spent on training workers who switch occupations. Finally, there are the costs due to loss of morale, on-the-job injuries because of carelessness or inexperience, and the lower productivity of short-term workers.

The high labor turnover is the result of several factors. One is poor working conditions, including dangerous working conditions, boredom, and irregular hours. Low pay and inadequate or nonexistent housing are two additional elements. The lack of preschool facilities is especially important in a country where women constitute 51% of the work force.(115) The inhospitable climate is a consideration in such areas as Siberia. Finally, the poor planning that created cities based on industries with largely male or largely female occupations, such as steel making or textiles, has contributed to the problem. For a number of additional reasons, including the difficulty of combining work with school, job turnover is a special problem among younger workers.

The Soviet planners have made a number of attempts to solve this problem. The approaches have included vocational guidance programs, increases in the material and nonmaterial incentives, improvements in working conditions and in workplace safety, and experiments in industrial democracy.(116) None of the approaches, however, has been notably successful.

3) The Rural Exodus

A third area in which the Soviet planners are faced with labor difficulties is the rural sector of the Soviet economy. The problem is a steady outmigration from rural areas since the fifties. The rural exodus averaged 1.5 million throughout the sixties and reached a net annual rate of nearly 2 million people during the early seventies.(117) This massive movement has consisted primarily of the young, the educated, and the skilled. The losses are particularly acute in such categories as machine

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operators, who play a vital role in agricultural production.

Numerous factors have contributed to the outflow. The two most important have been dissatisfaction with work and the lack of educational opportunities. The payment of higher urban wages has also contributed to the exodus.(118) Shortages of housing and services have been factors. A final aspect that should be mentioned is the lack of leisure time opportunities in the villages and hamlets of rural Russia.

The outflow has had several consequences. The loss of trained workers has had a negative impact on agricultural productivity, because the machinery that is available often remains idle or is used inefficiently.(119) The shift from rural to urban areas has had an effect on demographic trends, because urban dwellers marry later and have smaller families.(120) As was mentioned earlier, these demographic trends are a serious concern for the Soviet planners. The large-scale introduction of rural citizens into the urban setting has contributed to a range of urban problems, including crowded housing and increased crime. One of the most troubling aspects of the exodus has been its regional imbalance. The exodus has been the greatest in those areas where the need for manpower has been the greatest, such as Siberia, while the outflow has been negligible in areas with surplus manpower, such as Central Asia and the Caucasus.(121)

The Soviet leadership has responded to the rural exodus both negatively and positively. The negative devices have included withholding internal passports from residents of rural areas and requiring special residence permits for residents of some of the largest cities. The positive measures have included improvements in rural living standards and enhancement of the educational opportunities. The measures seem to have had a negligible effect on the exodus.

Conclusion: To Muddle Through or Not

Needless to say, the pervasive effects of the second economy and the widespread difficulties with the labor force are not the only problems vexing the Soviet planners. Agriculture remains the perennial problem child of the Soviet economy, with three consecutive bad harvests. Agriculture is an enormous drain on capital investment, with the Soviets pouring nearly $80 billion into the farming sector annually by 1977.(122) Only

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the importation of grain in every year since 1971 has enabled the Soviets to shield consumers from the consequences of the agricultural failures.(123)

Another sector which is of great concern to the Soviet planners is the energy production segment of the economy. The concern here is whether the Soviets will be able to maintain their status as the world's second largest consumer and second largest exporter of petroleum. The concern relates not only to the ability of the Soviets to match their goals for economic growth, but also to their ability to continue to subsidize the East European economies in amounts exceeding $20 billion a year.(124) These subsidies consist chiefly of petroleum and other raw materials sold at below market prices. Although some studies in 1979 and 1980 predicted difficulties for the Soviets in oil production, more recent reports from both Western and Soviet sources suggest that oil production is not a near-term problem.(125)

In assessing the prospects for the Soviet planning system and the economic system in general, it is important to bear in mind the age of the current Russian leadership. The Brezhnev generation that holds the reins of power is one that was born before 1910 and thus is in its seventies. As a group, the current leadership has grown accustomed to exercising power at various levels in the hierarchy over the course of more than four decades. The age and poor health of leaders such as Brezhnev makes it unlikely that they will undertake a radical revision of the economic system because of the turmoil and stress that such a change would produce. It thus seems likely that any significant changes will be the responsibility of those who succeed Brezhnev at the helm. As Jerry Hough has documented in his book, *Soviet Leadership in Transition*, those successors are likely to be 10 to 15 years younger than the present leaders, with a different set of experiences and educational backgrounds.(126) These differences of age and experience, which extend to the agencies responsible for economic planning, are attributable to the demographic devastation of the Great Purges and World War II, which decimated an entire generation of Soviet leaders.

Some of the necessary changes within the Soviet planning system may come without directives from the center. The source of those changes may be the gradual infiltration of the Soviet system by computers and the pressure of competition

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from the more highly computerized economies of Eastern Europe and the West. The number of main frame computers in the Soviet Bloc has increased by a factor of six over the last decade. More than half a million people are now employed in the computer industry in Soviet Bloc countries.(127) This increasing usage has created pressure for a more reliable data base for use with the computers. It has also created opportunities for feedback during the preparation of plans because of the speed with which different versions of the plan can be prepared. This feedback is something to which the central planners are unaccustomed. As we noted earlier, the computer's potential for restructuring the Soviet economy is not something that will be realized in the near future, but it is a force with which the Soviet leaders will have to reckon during the eighties.

That the Politburo recognizes the need for change in the economic system is indicated by the organizational changes in agriculture and by the announcements last year of changes in the incentive system for Soviet industry. The announcements stem from decisions made at the Communist Party Congress held in February 1981. The changes include new pay scales that would permit outstanding workers to earn 50% more than the average wage and grants of patent royalties to workers who devise production improvements. There are also financial rewards for workers who find ways of saving energy. Finally, the changes include grants of greater authority to enterprise directors to grant pay raises to productive workers and to release superfluous or unproductive workers. The purpose of the changes, which were not described as reforms, is to spur initiative and productivity. These changes, which are intended as a response to declining productivity growth and slower labor force growth, are being introduced gradually. If the experience with the Kosygin reforms can be used as a guide, it is doubtful that they will result in massive changes in the way in which the Soviet economy functions.(128)

According to one view, neither a revival of the Stalinist mode of central planning nor a sweeping liberal reform is very likely for the Soviet planning system in the foreseeable future. The most likely course of action is "muddling through," a continuation of most of the patterns of the recent past.(129) The age and conservatism of the Politburo members lend credence to this view and suggest that any shakeup of *Gosplan* and the ministries must await a change of the guard at the Kremlin.

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FOOTNOTES

(1) Dusko Doder, "Soviets Increase Prices of Fuel, Consumer Items," *Washington Post*, 15 September 1981, p. A 1. Barbara Slavin and Milt Freudenheim. "Shaking Up Agriculture," *New York Times*, 30 May 1982, p. 2E.

(2) U.S., Central Intelligence Agency. The Soviet Economy in 1978-79 and Prospects for 1980, June 1980, pp. 12, 14, and 25.

(3) Paul R. Gregory and Robert C. Stuart; Soviet Economic Structure and Performance, (New York: Harper & Row, 1981), p. 332 (hereafter cited as Gregory, Structure).

(4) "Soviet Imperialism Is in the Red," *Fortune*, 13 July 1981, p. 107.

(5) Dusko Doder, "Soviets Increase Prices of Fuel, Consumer Items," *Washington Post*, 15 September 1981, p. A 18.

(6) Dusko Doder, "Soviets Report Record Oil, Gas Production," *Washington Post*, 26 July 1981, p. A 20.

(7) For an extensive discussion of Soviet pricing policies, see Gregory, Structure, pp. 154-70.

(8) For an analysis of Soviet financial planning and controls, see Gregory, Structure, pp. 142-52.

(9) For a review of Soviet foreign trade practices, see Gregory, Structure, pp. 261-88.

(10) Gregory, Structure, pp. 71-5.

(11) Ibid., p. 78.

(12) Ibid., pp. 93-4.

(13) Ibid., p. 95.

(14) Ibid., p. 96.

(15) R.W. Davies, "Economic Planning in the USSR," in The Soviet Economy: Continuity and Change, ed. Morris Bornstein (Boulder, Colorado: Westview Press, 1981), p. 12 (hereafter cited as Davies "Planning").

(16) Ibid., p. 13.

(17) Abraham Katz. The Politics of Economic Reform in the Soviet Union. (New York: Praeger Publishers, 1972), p. 18 (hereafter cited as Katz, Politics).

(18) Ibid., p. 19.

(19) Gregory, Structure, p. 142.

(20) Ibid.

(21) Katz, Politics, p. 35. Voznesenski, after winning the Stalin Prize for his contributions, was dismissed from his administrative posts in March 1949 and shot in July 1950.

(22) Ibid., p. 58.

(23) Davies, "Planning," p. 29.

(24) Ibid., p. 30.

(25) Katz, Politics, p. 66.

(26) Ibid.

(27) Ibid., p. 68.

(30) Ibid., p. 72.

(31) Ibid., pp. 108-10.

(32) Ibid., pp. 111-13.

(33) Ibid., pp. 127-8.

(34) Davies, "Planning," p. 30.

(35) Gregory, Structure, p. 307.

(36) Davies, "Planning," pp. 30-1.

(37) Gregory, Structure, p. 307.

(38)Ibid., p. 309.

(39) Ibid. p. 314. By the close of 1980, production associations were supposed to account for three quarters of industrial production.

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(40) Ibid., p. 317.
(41) Ibid., p. 318.
(42) Ibid., p. 310.
(43) Ibid.
(44) Davies, "Planning," p. 31.
(45) Gregory, Structure, p. 314.
(46) Davies, "Planning," p. 32.
(47) Ibid.
(48) Gregory, Structure, p. 311.
(49) Ibid., p. 314.
(50) Ibid., p. 315.
(51) Ibid.
(52) Aron Katsenelinboigen. Soviet Economic Thought and Political Power in the USSR (New York: Pergamon Press, 1980), p. 13 (hereafter cited as Katsenelinboigen, Thought).
(53) Ibid., p. 12.
(54) Michael Ellman. Soviet Planning Today: Proposals for an Optimally Functioning Economic System (Cambridge: Cambridge University Press, 1971), p. 1 (hereafter cited as Ellman, Proposals).
(55) Ibid., p. 2 and note 5.
(56) Ibid., p. 3.
(57) Ibid.
(58) Albina Tretyakova and Igor Birman. "Input-Output Analysis in the USSR." *Soviet Studies* 28 (April 1976), p. 160 (hereafter cited as Tretyakova, "Input-Output").
(59 Ellman, Proposals, pp. 110-1.
(60) Tretyakova, "Input-Output," p. 182.
(61) Ibid., p. 181 and note 74.
(62) Ibid., p. 182.
(63) Ellman, Proposals, p. 84.
(64) Ibid., p. 83.
(65) Ibid.
(66) Ibid., p. 85.
(67) Vladimir Treml. "A Comment on Birman-Tretyakova." *Soviet Studies* 28 (April 1976), p. 187.
(68) Ibid., p. 188.
(69) Ellman, Proposals, p. 23.
(70) Ibid., p. 24.
(71) Ibid., p. 30.
(72) Ibid., p. 35.
(73) Ibid., p. 36.
(74) Ibid., p. 41.
(75) Ibid.
(76) Ibid., p. 44.
(77) Ibid.
(78) Ibid., p. 46.
(79) Ibid., p. 47.
(80) Martin Cave. Computers and Economic Planning: The Soviet Experience (Cambridge: Cambridge University Press, 1980), p. 1 (hereafter cited as Cave, Computers).
(81) Ibid., p. 6.
(82) Ibid., p. 11. See William J. Conyngham. "Technology and Decision Making: Some Aspects of the Development of OGAS." *Slavic Review* 39 (September 1980) for a thorough discussion of the problems encountered during the implementation of OGAS.
(83) Ibid., p. 13.

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(84) Ibid., p. 15.
(85) Ibid., pp. 15-8.
(86) Ibid., p. 22. The target for the Tenth Five Year Plan was six centers.
(87) Ibid., p. 177.
(88) Gregory, Structure, p. 316.
(89) Cave, Computers, p. 179.
(90) Gregory Grossman, "The 'Second Economy' of the USSR," in The Soviet Economy: Continuity and Change, ed. Morris Bornstein (Boulder, Colorado: Westview Press, 1981), p. 71 (hereafter cited as Grossman, "Second Economy").
(91) Dennis O'Hearn. "The Consumer Second Economy: Size and Effects". *Soviet Studies* 32 (April 1980), p. 218 (hereafter cited as O'Hearn, "Consumer").
(92) Ibid., p. 220.
(93) Grossman, "Second Economy," p. 83.
(94) Ibid.
(95) Gregory, Structure, p. 172.
(96) Grossman, "Second Economy," p. 72.
(97) O'Hearn, "Consumer," p. 222.
(98) Grossman, "Second Economy," p. 73.
(99) O'Hearn, "Consumer," p. 225.
(100) Gregory, Structure, p. 171.
(101) O'Hearn, "Consumer," p. 228.
(102) See Aron Katsenelinboigen and Herbert S. Levine. Market and Plan, Plan and Market: The Soviet Case. In The Soviet Economy: Continuity and Change, ed. Morris Bornstein (Boulder, Colorado: Westview Press, 1981), pp. 61-70 for an analysis of various market relationships that exist among state enterprises, collectives, and households. The article analyzes the various relationships in terms of their legality within the Soviet system and uses a spectrum of colors, ranging from red through gray to black, to characterize these markets.
(103) See Konstantin Simis. "Russia's Underground Millionaires." *Fortune*, 29 June 1981, pp. 36-50 for a description of the role of these underground entrepeneurs in the second economy.
(104) Grossman, "Second Economy," pp. 75-6.
(105) For discussions of the effects of the second economy on the centrally planned system, see Gregory, Structure, p. 172; Grossman, "Second Economy," pp. 37-39; and O'Hearn, "Consumer," pp. 229-32.
(106) Grossman, "Second Economy," p. 88.
(107) Murray Feshbach. "A Different Crisis." *The Wilson Quarterly* 5 (Winter 1981) p. 118 (hereafter cited as Feshbach, "Different Crisis").
(108) Ibid. p. 118.
(109) Ibid. p. 119.
(110) Ibid.
(111) For a discussion of this matter see p. 1 above and the material cited in note 2.
(112) Feshbach, "Different Crisis," p. 122.
(113) Ibid., p. 124.
(114) David E. Powell. Labor Turnover in the Soviet Union. In The Soviet Economy: Continuity and Change, ed. Morris Bornstein (Boulder, Colorado: Westview Press, 1981), p. 104 (hereafter cited as Powell, Labor Turnover).
(115) Gail W. Lapidus. "The Female Industrial Labor Force: Dilemmas, Reasessments, and Options." In The Soviet Economy: Continuity and Change, ed. Morris Bornstein (Boulder, Colorado: Westview Press, 1981), p. 119.
(116) Powell, "Labor Turnover," pp. 112-16.
(117) David E. Powell. The Rural Exodus. In The Soviet Economy: Continuity and Change, ed. Morris Bornstein (Boulder, Colorado: Westview Press, 1981), p. 149.
(118) Ibid., p. 155.
(119) Ibid., p. 158.

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(120) Ibid.

(121) Ibid.

(122) Blair A. Ruble. "Muddling Through." *The Wilson Quarterly* 5 (Winter 1981), p. 136 (hereafter cited as Ruble, "Muddling").

(123) A recent study prepared for the Soviet leadership emphasizes the seriousness of the Soviet problems with agriculture. Dusko Doder, "Soviets Outline Dramatic Farm Deficiencies," *Washington Post*, 23 May 1982, p. A1.

(124) Soviet Imperialism Is in the Red. *Fortune*, 13 July 1981, p. 107.

(125) See Dusko Doder, "Soviets Report Record Oil, Gas Production," *Washington Post*, 26 July 1981, p. A 20; and James Naughtie, "Energy Estimates Revised Upward," *Washington Post*, 9 September 1981, p. A 1.

(126) Jerry Hough. Soviet Leadership in Transition, (Washington, D.C.: The Brookings Institution, 1980).

(127) James V. Ogle. "Will Computers Destroy the Soviet System?" *Washington Post*, 1 November 1981, p. C 1.

(128) Dosko Doder. "Soviet Economy Gets a Dash of Capitalism." *Washington Post*, 2 Novermber 1981, p. A 1.

(129) Ruble, "Muddling," pp. 137-38. "In a recent interview with the *Washington Post*, former Soviet diplomat Arkadi N. Shevchenko expressed the view that significant changes in Soviet policy are unlikely following the demise of Brezhnev. He suggested that any new leader, whether Yuri Andropov or another, would spend several years consolidating power, as did Stalin and Khrushchev, before embarking on major policy changes." Robert G. Kaiser, "Defector Terms Kremlin's Infighters 'Political Pygmies'," *Washington Post*, 6 June 1982, p. A1.

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SOUTHEAST EUROPEAN BOUNDARY DISPUTES

By Nicholas Dima

Southeast Europe is an area of geo-political instability which has been dominated for centuries by foreign powers and interests. At different times, the area has been dominated either directly by the Turks, the Germans or the Russians, or indirectly by other powers. Consequently, it matured neither politically nor economically, nor acquired a strong and lasting identity of itself, as Western Europe did. At present, the region is once again deeply divided by ideological differences, opposing national orientations, and contradicting ethnic aspirations.(1) Indeed, recent events in southern Yugoslavia, which exploded with unprecedented violence in the spring of 1981, have once again raised what used to be called the "Eastern Question": the problem of disputed Southeast European boundaries.

A high-ranking Yugoslav commentator of foreign policy recently described the Balkans as being no longer a powder keg, but not a zone of peace. He cited the continuing Greek-Turkish feud, the Bulgarian claims on Yugoslav territory, and the Albanian unrest.(2) The truth is that southern Yugoslavia has never achieved real stability, having remained one of the most unsettled areas of the Balkans, and the recent events in Kosovo illustrate this point. At the same time, in spite of apparent tranquillity, Bessarabia and Bukovina, the former Romanian provinces annexed by the Soviet Union, continue to remain a bitter bone of contention between Bucharest and Moscow. As a Western scholar wrote at the end of the Second World War, the area represents "the most critical territorial problem bequeathed to the present generation as a direct legacy of the age-old Eastern Question," its future depending on the balance of power in Europe.(3) Furthermore, it appears that Hungary has not completely relinquished its former territiorial claims, particularly on Transylvania, although these claims are now advanced under the guise of "human rights."

The Balkan boundaries have been shaped by two Balkan wars and were ultimately determined, together with the other Eastern European boundaries, by the Paris Peace Conference and Treaties at the end of the First World War. They were equally the result of the indigenous struggle for independence,

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ethnic unification and international decisions.

The Paris Peace Treaties aimed at establishing ethnic boundaries and nation-states and emphasized the right of self-determination. Final decisions might have followed non-ethnic criteria in certain cases, but the paramount principle was "to include in each state the maximum number of its own nationals and the minimum number of other nationalities ... and to respect local conditions and sentiments as far as possible."(4) Nonetheless, no boundary is or can be perfect "because it must include irreconcilable elements that have evolved side by side in the geographical space."(5) This is particularly true in the Balkans, where virtually every boundary could be questioned. In order to avoid endless animosities, the Paris Peace Treaties provided special clauses aimed at protecting ethnic minorities who could not be given political self-rule, without making them irredentist or allowing them to threaten the peace and security of Europe. Despite all this, one of the chief causes of the Second World War was territorial revisionism, and notwithstanding the tremendous human losses and suffering of that war, some Southeast European boundaries continue to threaten the stability of the area.

The purpose of this essay is to examine certain of the major territorial problems of Southeast Europe which in the opinion of this author have the potential to generate major crises. These relate to the Albanian-inhabited Kosovo province of southern Yugoslavia; the adjacent Macedonia; and Bessarabia and Bukovina. The first two cases present primarily internal problems for Yugoslavia, with possible international repercussions, whereas Bessarabia and Bukovina constitute an international problem involving the Soviets and Romania.

Yugoslavia and the Kosovo Problem

As a beneficiary of the Balkan Wars, and as a victor in both World Wars, Yugoslavia has inherited the largest territory of any Balkan country. However, as a state it is neither homogeneous from an ethnic point of view, nor equally developed from an economic/territorial standpoint. Yugoslavia is a mosaic of conflicting nationalities, divided by religion, language and centuries of separate development and foreign domination. It is a conglomerate of Slavic and non-Slavic nationalities dominated by the Serbo-Croat group, itself deeply split between the two main ethnic groups of the country. In spite of recent

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efforts for integration and equalization, Yugoslavia has remained unstable from an ethnic point of view.(6)

Yugoslavia is now also confronted with serious economic problems and self-doubt. It has a foreign debt of almost 20 billion dollars, a very high annual inflation rate, and a visible gap between the better-developed north of the country and the underdeveloped southern part which can only worsen the internal situation. If Belgrade is unable to resolve these economic pressures, the result could be political unrest which might be expected to crystalize along ethnic lines.(7) During the early 1970s, analysts speculated that the growing Croatian nationalism might lead to the breakup of Yugoslavia. This opinion was in line with Milovan Djilas' statement that by the year 2024 "the country will have broken up into four mini-states: Slovenia, Croatia, Macedonia and Serbia."(8) Now, however, rising nationalism and unrest among Kosovo Albanians is the chief source of fear in Yugoslavia.

The Kosovo Autonomous Province is located in the southern part of Yugoslavia, where it borders Albania and is flanked by three Yugoslav republics: Montenegro, Serbia and Macedonia. Kosovo's population is 78 percent Albanian, but the province is dominated politically and economically by the Serbian minority. The major disturbances of 1981, which claimed many lives and caused considerable damage, brought the Albanian "minority" problem to the forefront of Southeast European political awareness.

At a first glance, the Kosovo confrontation appears as a struggle between the Serbs and the indigenous Albanians, who challenge the present socio-political arrangements within the province and also vis-a-vis other Yugoslav republics. This struggle is a continuation of a long historical conflict between the two nationalities for control over the area. Furthermore, the prevailing Serbian fear is that if Kosovo Albanians succeed in upgrading their province to republic status, the new republic may decide to secede and join Albania. Such an event would then destabilize the neighboring Macedonian republic and trigger an international conflict involving at least three of the Southeast European countries.

Albania's present boundaries were largely established in 1913 at the London Conference of Ambassadors, when about one third of the Albanian nation was left in Serbia and Montenegro.(9) During the Second World War, Kosovo and Western

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Macedonia were annexed to Greater Albania, which was itself annexed by Italy. Allegedly, during the course of the war Tito promised the Communist Party of Albania that he would leave Kosovo with Albania. Nevertheless, after assuming power Tito reannexed Kosovo and the Yugoslav security forces brutally suppressed all Albanian opposition in the area. As a result of the post-war territorial reversal, one third of the 4.5 million Albanian nationals remained in Yugoslavia. These are now divided between Kosovo (some 1.3 million by the latest statistics), Macedonia (376,000), and Montenegro (50,000).

In view of the high and increasing proportion of Albanians to the overall population of Yugoslavia, the problem does not appear to have an easy solution. Both Serbs and Albanians have emotional attachments to Kosovo. For Serbs, Kosovo is the very cradle of their medieval state and their national Orthodox Church. For Albanians, Kosovo is associated with their national revival, and the region indeed played an important role in the struggle for Albania's independence.(10) Historically, neither one of the two nationalities has relinquished its claims on this territory and in spite of some apparently peaceful periods, the conflict has persisted.

During the 1950s, the Albanian population of Kosovo was controlled and suppressed by the Serbian security forces of former Interior Minister Rankovic. Most Albanians held only lower level and menial jobs, and Kosovo was economically the least developed part of Yugoslavia. The Albanian population of Kosovo has since increased from some 500,000 (68.4 percent) in 1948 to 916,000 (73.6 percent) in 1971 1,227,000 (77.5 percent) in 1981. During the same period, the Serbian population of Kosovo increased from 172,000 in 1948 to 228,000 (18.3 percent) in 1971, and then actually decreased to 209,000 (13.2 percent) in 1981.(11)

With the fall of Rankovic and the liberalization of Yugoslavia, Kosovo entered a period of Albanian affirmation which climaxed with the 1968 riots. The riots broke out during ceremonies in observation of the official Kosovo Liberation Day, and took a strong pro-Albanian and anti-Serbian character. The demonstrators demanded that the word "Metohija," (a Serbain term) be dropped from the name of the region; that Kosovo be redesignated as a republic; that it be given the right of self-determination; and that it should be given an independent university. Although harsh prison terms were

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given to the leaders of the revolt, Belgrade agreed to special measures aimed at improving local conditions and satisfying some of the demands. Thus, the University of Pristina was founded in 1969, and this became an Albanian cultural center. (12) Following the 1968 Soviet invasion of Czechoslovakia, Belgrade allowed Kosovo to develop a special relationship with Albania. In 1974 the region was given constitutional status. All these moves actually served to deepen the ethnic consciousness of the Kosovo Albanians, and also led to dissatisfaction among the Kosovo Serbs and Montenegrins who felt their dominance to be threatened. After further concessions were made to the Albanian population, some Serbs even began to complain publicly of "reverse discrimination."(13)

In spite of these concessions made to the Albanian "minority," the Albanians continued to show hostility to Belgrade, their feelings being aggravated by the continuing weakness of economic conditions in the province. Kosovo remained the poorest part of Yugoslavia, and although Belgrade appeared willing to increase economic aid to Kosovo, the national economy was not doing well, and the high birth rate of the Kosovars absorbed the entire aid without permitting any significant rise in the overall standard of living.(14) The continuing poverty was interpreted by the local Albanians as proof of injustice, further increasing tensions.

Between 1974 and 1981, for example, some 600 Kosovo Albanians were arrested for nationalist and irredentist activities. Extremist Albanian organizations openly demanded the secession of Kosovo and other Albanian-inhabited areas of Yugoslavia with the object of union with Albania. Given this dissatisfaction, the 1981 riots did not come as a surprise, but their intensity surprised the outside world.(15)

Thousands of Albanian students of the newly founded Pristina University went on a rampage in the spring of 1981. They smashed shop windows and factory equipment, set trucks afire and fought with the police. The demonstrations and riots spread all over Kosovo, and a number of persons were killed and over one thousand injured. The demonstrators called alternatively for republican status and for secession. Belgrade decided to declare a state of emergency in the province and sent troops, tanks and special units to cope with the riots. The protesters gave the impression that they would prefer Albanian despotism to Yugoslavian democracy. The separatist

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character of the riots troubled Belgrade because the idea of Albanian separation could easily inspire other dissatisfied nationalities to demand secession. The Hungarians of Vojvodina, for example, showed considerable sympathy towards the rebellious Albanians.(16)

Officially the Belgrade government blamed Tirana as the main instigator of the uprising. Tirana, which publicly supported the demands of the Kosovo Albanians, blamed the internal inequities as the cause of the disturbances. Belgrade also tried to draw the attention of the Kosovo Albanians to the low standard of living in Albania, but apparently the demonstrators were not concerned with standards of living: they demanded primarily that Kosovo be elevated to the status of a federal republic. It is said that Tito had contemplated this option during his last years, but that the Serbs had resolutely opposed it, being afraid of its consequences.

The crackdown after the Kosovo riots was welcomed by Serbia, Montenegro and Macedonia. Most Serbs are anxious to keep Yugoslavia together, although a few do argue against keeping the Albanians within the state against their will. When the Albanian leader publicly declared in November 1981 that his country had no territorial claims against Yugoslavia, he pointed out that in 1946 Tito had promised to return Kosovo to Albania, and some Serbs privately say that if Tito had promised Kosovo to Enver Hoxha, he should have given it to Albania at the end of the war.(17) In any case, once Kosovo had been pacified, Belgrade again insisted that the disturbances were the work of a small group of counterrevolutionary, nationalist and irrendentist elements, incited by Tirana.(18)

Having suppressed the riots, Belgrade faced three possible choices of action: to grant republic status to the Kosovo Albanians; to increase economic aid in the hope of counteracting separatist tendencies; or try to preserve the status quo. Unfortunately, none of these possible courses of action guaranteed a long-term stability in the area. In fact, radio Belgrade stated flatly that to make Kosovo a republic would inevitably lead to danger of war.(19) Increased aid is difficult to implement in the present economic circumstances, and would not guarantee the future stability of the area. Maintaining the status quo, however, appears to be the riskiest of all alternatives, which will only temporarily postpone a new eruption. For the time

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being, Belgrade has managed to suppress the revolt, but the Kosovo problem remains unsettled. Furthermore, the riots spilled over into neighboring Montenegro and Macedonia, each of which possess substantial Albanian minorities which could demand to be attached to Kosovo in the future.

The Macedonian Question

Macedonia lies in the heart of the Balkan peninsula, at the meeting place of four countries. Its geo-strategic location has always made it an area of territorial disputes, and it remains a modern problem. In recent times, "the root of the Macedonian problem has been the question of the nationality of its inhabitants."(20) Macedonia was in fact the microcosmos of the Balkans; a kaleidoscope of all Balkan nationalities, Bulgarians, Serbs, Greeks, Vlachs (Macedo-Romanians), Moslems, Albanians, Turks, and other ethnic groups separated by very poorly defined boundaries.(21)

Although the Ottoman Empire had conquered Macedonia from Serbia, by the 19th century the Slavic Macedonians were often considered to be Bulgarians, while Serbia still considered them to be Serbs. Greece, to confuse the issue further, claimed Macedonia on ethnic and historical grounds. More recently, Sofia has taken to publishing tests which claim that the Macedo-Slavs consider themselves Bulgarians.(22) It is possible that through the educational efforts of Bulgaria, the Macedonians were Bulgarized. The San Stefano Treaty of 1878 gave most of Macedonia to Bulgaria for a very short time, but the Berlin Congress of the same year nullified that treaty. Thereafter, the reestablishment of the San Stefano boundaries became one of Bulgaria's national goals.(23) Ever since, following the steady disintegration of the Ottoman Empire, Macedonia had been one of the most difficult territorial problems in the Balkans. Bulgaria aspired to annex it – while Serbia and Greece favored a partition. Not being a neighbor, Romania could hardly make any territorial claim on Macedonia in spite of the Romanian minority in the region. However, Bucharest used the issue as a bargaining point in order to obtain a better deal from Bulgaria in southern Dobrudja. In the struggle for domination, the interests and aspirations of the smaller minorities of Macedonia – the Albanians, Turks, Romanians, and others – were sacrificed.

From a Bulgarian point of view, Macedonia lies at the root

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of the Balkan problem and has not yet been properly solved. In 1912, for example (before the Balkan Wars), Macedonia had 2.3 million inhabitants. At the end of those wars, half of Macedonia was given to Serbia, four-tenths to Greece and only one-tenth to Bulgaria. The Paris Peace Conference which followed the First World War made only minor modifications to this partition.(24) Greek Macedonia, for example, only contained 513,000 (or 42.6 percent) Greeks in 1912, but Greece expelled the Moslems, and exchanged other minorities, such as Bulgarians and Vlachs, who went to Bulgaria and Romania respectively, so that by 1926 almost 90 percent of the population of Greek Macedonia was Greek.(25) Although this area continued to be disputed until after the Second World War, it now seems that that Greek Macedonia is no longer a part of the dispute.

At the end of the First World War, the Macedonian Slavs (who seemingly considered themselves to be Bulgarians) advocated the formation of an independent country extending from Salonika (now in Greece) to Skopje in Yugoslavia, with provisions for cultural freedom for all nationalities. Their goal was rejected.(26)

Subsequently Belgrade tried to Serbianize the Macedonians, but later took the view that they were neither Serbs nor Bulgarians and began to treat them as a separate nationality. This trend was advanced vigorously after the Second World War, when Yugoslavian Macedonia became the site of a separate republic within the Yugoslav federation and its residents were regarded as having separate nationality. At the same time, under Dimitrov's leadership Bulgaria recognized unequivocally the existence of the Macedonians. At first, Sofia conceded that Macedonian nationality had taken shape in 1918, but later moved the "birth date" to 1944. However, after Dimitrov's death, Bulgaria reversed itself and Sofia ceased to recognize a separate Macedonian nationality. Thereafter, Sofia's position toward Yugoslavia in general, and the Macedonian Question in particular, reflected essentially Moscow's attitude toward Belgrade. Whenever Soviet-Yugoslav relations deteriorate, Bulgaria raises the Macedonian problem. Yugoslavia has always remained strongly defensive. As a rule, Sofia refuses to recognize its own Pirin Macedonian minority, and accuses Yugoslavia of forcing an artificial language in Macedonia while forbidding the population to embrace their "true" nationality,

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which is implied to be Bulgarian.(27)

After the 1968 Soviet invasion of Czechoslovakia, the polemics became acute; the two countries appearing to head toward a military confrontation. The conflict subsided later, but the polemics remained. Yugoslav Macedonians are themselves very apprehensive, and their leaders and intellectuals try hard to prove that they are a separate and distinct nationality whose ethnic origin dates from the Middle Ages.(28) Sofia continues to regard Yugoslavia as an unstable country, and the recent Kosovo disturbances have only strengthened the Bulgarian viewpoint. On the other hand, Belgrade regards Bulgaria as a Soviet proxy, and the two countries continue to watch each other suspiciously.

The recent disturbances in Kosovo have made the Balkan situation more grave than at any time since the Second World War. Yugoslavian Macedonia has 2 million inhabitants, of whom 380,000 (or almost 20 percent) are Albanians. To aggravate the issue, they inhabit the areas close to Kosovo and Albania. If Kosovo becomes a republic within the Yugoslav federation, Skopje is afraid that the Macedonian Albanians will demand to separate and join the new republic. This in turn would invite Bulgaria to claim most of the remaining portions of Yugoslavian Macedonia, threatening its very existence. Nationalism is still a prevailing force in Southeast Europe, and old disputes could easily ignite again in the near future.

Bessarabia and Bukovina

In spite of similar ideologies and political institutions Romania and the Soviet Union are sharply divided over Bessarabia and Bukovina, and nothing short of a major territorial readjustment could satisfy Bucharest in this dispute. The conflict over Bessarabia and Bukovina between the Russian colossus and its southwestern neighbor began almost two hundred years ago. As long as these two provinces — still inhabited by Romanians — remain in the USSR, the two countries cannot enjoy a truly peaceful relationship.

As the Ottoman Empire declined, Southeast Europe became an area of expansion for tsarist Russia. Between 1711 and 1944, Russian troops invaded the Romanian lands no less than 12 times, aiming toward Constantinople and the Turkish Straits. In its relentless expansion, Russia managed, in 1812, to acquire for the first time the eastern half of the Romanian

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principality of Moldavia, later known as Bessarabia. Romania regained part of it in 1858, lost it again in 1878, and regained it completely in 1918, together with Bukovina which had been annexed by Austria in 1775.

The union of the two provinces with Romania was ratified by the Paris Peace Treaty in 1920. The new Soviet regime, however, did not accept this situation. Initially, it tried to bargain with Romania, but the negotiations failed. As the young Soviet Union became stronger, its attitude toward Romania stiffened, and it adopted a policy of provocation. Between 1928 and 1934, Moscow abandoned this intransigence and acknowledged Romania's possession of the disputed territory through a series of bilateral and international agreements. Then in 1934 Romania and the Soviet Union agreed to exchange ambassadors, the two countries opened their borders, and even signed an agreement on patrolling the Dnestr River. (29)

However, after 1936, Soviet policy toward its western neighbors began to fluctuate, and with the signing of the Soviet-German pact in 1939, Moscow resorted to a hostile attitude. On June 26, 1940, Romania received an ultimatum to withdraw from the two provinces. The evasive Romanian response precipitated a second ultimatum demanding the withdrawal of the Romanian authorities within four days, commencing from 2 PM on June 28. Two hours before the deadline, special Soviet elite forces began to invade Bessarabia and Northern Bukovina. The Romanian Communist Party of the time, overwhelmingly dominated by non-Romanian ethnics, greeted the "liberation" of the two regions from the Romanian "capitalist yoke." The annexed territory totalled 51,000 square kilometers and contained 3.9 million inhabitants, most of them Romanians.(30)

In August 1940, the Soviet authorities changed the internal boundaries and administrative units of the newly acquired territory and introduced a new complication to the problem. Southern Bessarabia, adjacent to the Danube River and the Black Sea, Northern Bukovina, and the northern districts of Bessarabia were incorporated into the Ukraine. The central two-thirds of Bessarabia, together with a strip of land from the left bank of the Dnestr River, were promoted into what thereafter became the Moldavian Socialist Soviet Republic.

In June 1941 Romania joined Germany and attacked the

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Soviet Union in the hope of liberating its lost provinces, but Russia reoccupied (and again annexed) the territory in 1944. The 1947 Paris Peace Conference drew the Romanian-Soviet boundary according to the 1940 lines, which the USSR claimed were based on a "peaceful agreement" between the two countries.

The new boundaries of Socialist Soviet Moldavia were supposedly drawn according to the ethnic division of the territory – but not exactly so. Some knowlegeable geographers have remarked that on reshaping Moldavia, Moscow incorporated into the Ukraine the strategic locations in the South (access to the Danube) and in the North (access to Central Europe). It has also been suggested that those who redrew the boundaries had in mind the possiblility that if Moldavia should ever be returned to Romania, the USSR could still claim to retain these two geo-strategic portions. (31)

Following 1944, Romania itself had to accept rule by Communists. For the first ten years or so, the Romanian Communist Party was weak, obediant toward Moscow, and overwhelmingly dominated by minorities. Gradually, however, the party was "Romanized" and its attitude changed. Since the early 1960s, Romania increasingly began to challenge Moscow over various issues. With regard to Bessarabia and Bukovina, Bucharest began by publishing early essays by Marx and Engles which challenged the Russian siezure of the Romanian lands. One such work by Engels remarks:

> Finland is Finnish, Poland is Polish, Bessarabia is Romanian. There is no question of bringing together various populations dispersed and unrelated who could be called Russian. (32)

Once it surfaced, the dispute began to gain proportions. The Russian annexations began to be called (by implication) acts of "imperialism," triggered by a secret protocol with Nazi Germany. Consequently many Romanian periodicals started to question the current status of the disputed area.

For their part, the Soviets delegated to the "Moldavians" the task of responding to the Romanian attitude. More than at any other time, the leaders of Soviet Moldavia began to produce books and articles claiming a separate Moldavian history, language and nationality. In June 1974, just before the Helsinki Conference, in an unusual departure from the normal line, Lazarev, the president of the Supreme Soviet of

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Moldavia, produced a 910-page history of Moldavia which was supposed to be the ultimate answer to the problem. The entire study is a senseless distortion of Romanian history, a warning and a threat. Among other things, the author states:

> In order to cleanse themselves of past and present errors, to terminate the malicious falsification of history, messieurs Romanian patriots should listen to this advice .... No matter for how many years they should assert that Moldavians are Romanians, Moldavians will never transform themselves into Romanians and Soviet Moldavia will not become Romanian territory.(33)

His message was even clearer when alluding to the invasion of Czechoslovakia in 1968. He concluded that if certain circles continue to claim Bessarabia and Bukovina, they would receive a well-deserved slap.

The Romanian reaction, however, was very strong, and increasingly open. In May 1976, Soviet-Romanian relations reached a nadir. President Ceausescu was expected to deliver an important public speech on the subject, and the Romanian reservists were briefly called up. Rumors of a possible confrontation with the Soviet Union spread around the country.

Apparently, this was the limit tolerated by Moscow who dispatched Katushev, the Soviet official in charge of the ruling communist party, and General Yepishev, political director of the Soviet military, to Bucharest. Shortly afterwards, Ceausescu delivered a mollificatory speech stating that Romania had no territorial claims with her neighbors, and he subsequently visited Bessarabia, where he avoided refering to Moldavians as Romanians. Nevertheless, it was not long before the polemics started again, with certain Romanian authors challenging the consciousness of multi-national empires, and even stating that all such empires have fallen apart in the end.(34) Along the same line, Radio Bucharest rebroadcasts Peking radio-programs almost daily – an act which annoys the Russians – particularly when they sound like the following one of August 1, 1978:

> The Soviet social-imperialism is engaged in a frantic struggle for world hegemony ... through unlimited ambitions the Soviet imperialism wants to occupy the entire Europe, Asia, and Africa; Europe being its main target ... The USSR and USA are relatively on a similar stand, but while the USSR is in an offensive position, the USA is in a defensive position. The principal danger is posed thus

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> by the "polar bear." The Soviet social-imperialism is in essence weak, its ambitions exceeding very much its power. We have to combat pacifism toward the USSR. The nature of the Soviet social-imperialism will not change. The well-fed bear will not change its habit of devouring people. (35)

During the last years, the Soviet-Romanian dispute has somewhat stabilized. Romania had to acknowledge her helpless position vis-a-vis Soviet power but far from solving the dispute, it has only deepened the bitterness and postponed a settlement. At the same time, the over three million Romanians now living in the Soviet Union assert more and more openly that they are Romanians, and the struggle continues despite an outward appearance of tranquillity. Intra-communist Soviet-Romanian relations have been damaged for a long time to come, and the only satisfactory solution from a Romanian point of view -- a change of boundary -- is unacceptable to Moscow.

Far from taking a conciliatory line, Moscow alluded to a possible territorial punishment against Romania and mobilized its Eastern European allies, particularly Hungary, to join her in challenging Bucharest. Consequently, Hungary launched a propaganda attack on Romania regarding the minorities in Transylvania, while exiled Hungarians tried to reopen the Transylvanian question. The problem was not raised as a boundary dispute, but under the banner of "human rights" in Romania.

Transylvania and implicitly the Romanian-Hungarian boundary, does not currently have the potential for destabilization. Unlike the other disputed regions most of the inhabitants are Romanians who give allegiance to Bucharest. Nevertheless, outside instigation could make the province become a bone of contention once again.

Transylvania is considered by Romanians to be the very cradle of their history, and in spite of having been dominated by Austria and Hungary for long periods in the past, Romanians have always formed the majority of the region's population. Based upon this majority, upon historical rights and other elements, and the "de facto" union of the province with Romania at the end of the First World War in 1918, the Paris Peace Conference acknowledged the union and granted Transylvania to Romania.

During the inter-war period, however, Budapest conducted

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a policy of revisionism seeking the restoration of the pre-War boundaries, and in 1938 sided with the Axis. As a result, Germany allowed Hungary to annex southern Czechoslovakia, Ruthenia and northern Yugoslavia. Then, in August 1940, less than two months after Soviet troops invaded Romania and annexed Bessarabia and Northern Bukovina, Germany dictated a new boundary settlement in Transylvania, giving the northern part of the province to Hungary. The Vienna Diktat, however, was declared void at the end of the Second World War and the region was restored to Romania. Dissatisfied by the new move, the ethnic Hungarian population of Transylvania joined the communist party of Romania en masse, and for almost two decades terrorized the Romanian majority who refused to acknowledge communism. In this climate, an autonomous Magyar region was set up in the middle of Romania in 1952, but this proved to be irredentist and it was later disbanded.

During recent decades, the Hungarian and Szekler population of Romania increased from 1.5 million in 1956, to 1.6 million in 1966 and 1.7 million in 1977. According to the last Romanian census of 1977, the two linguistically related groups made up 7.9 percent of Romania's 21 million inhabitants or some 30 percent of Transylvania, while the Romanians accounted for over 60 percent of the region's population and 90 percent of the population of the country.(36)

From an ethno-demographic point of view, the historian Seton-Watson concluded that the Hungarians have a low birth rate and in recent times have failed to add to their population by natural increase.(37) Thus, the more urbanized Transylvanian Hungarian population has failed to increase, while the mostly rural Romanians have increased fairly rapidly. The present trend to urbanization/industrialization has brought more rural Romanians into the Transylvanian cities, giving these a Romanian character and giving a Romanian character to the entire area. With this trend continuing, and with the emigration of the German population of the region to West Germany, Transylvania is becoming increasingly Romanian and increasingly less prone to destabilization. Bessarabia and Southern Yugoslavia, by contrast, are moving in an opposite direction.

Conclusions

A Western researcher concluded recently that nationalism

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continues to play an important role in Eastern Europe, but as long as the Soviet Union retains supreme authority nationalist tendencies will be strictly controlled. If the Soviet Union, however, were to be confronted with internal or international crises, boundary disputes could once again present real problems. One such case would undoubtedly be the Soviet-Romanian boundary dispute, which would be promptly resurrected in the event of any sign of Soviet weakness.

Southern Yugoslavia is a different case, being both a dependent and an independent variable. The recent harsh repression of the Kosovo riots only treated the symptoms, while the real cause remained. This treatment also sharpened ethnic antagonisms so that the potential for a future outbreak of violence is still there. The large Albanian population increase in southern Yugoslavia adjacent to the Albanian frontier will eventually force some kind of solution.

Concomitantly the insecurity of the young Macedonian nation and the persistence of the Pirin Macedonians in Bulgaria, who are not recognized by Sofia as a distinct nationality, make the Macedonian question another unsettled territorial problem. If Kosovo managed to assert itself and seceded, it would set up a chain reaction in Macedonia and other areas. Such a dismemberment would spell disaster for Yugoslavia, and promote disturbances throughout the entire Balkan area. (38) It would be impossible to draw new boundaries which would satisfy all ethnic groups and there could be no guarantee of future stability. Can Yugoslavia hold itself together and produce a new generation with a new mentality, or will it continue to depend on the interests of the major powers for its integrity in the face of growing internal tensions and instability?

FOOTNOTES

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AN ASSESSMENT OF THE POLISH CRISIS: THE EAST EUROPEAN VIEW

By Stephen R. Bowers

The six month period following the repression of the Polish reform movement set in motion by the dramatic example of Solidarity has provided us with an opportunity to evaluate that crisis from the perspective of Poland's East European neighbors and allies. By the summer of 1982 it was obvious that in spite of the relatively independent policies of some of those nations, the demands of the Polish reformers were perceived, at least in the minds of officials, as threats to socialism that were wholly inconsistent with existing standards of East European diversity. Furthermore, the efforts of dissident Poles were regarded as simply one component of a comprehensive Western plot to revise the political boundaries of Europe.

While most Western attention focused on the responses of the Western leaderships, it is important to examine official reactions of the Eastern European communist party states because such an examination reveals the comfortable degree of unity existing within the region. That unity stands in stark contrast to the disunity of the Western nations which agonized over their responses and were able to achieve almost no consensus at all. Disagreements undoubtedly exist on some points of the actions of December, but they have been carefully muted and placed within the context of supportive statements and relief efforts. A study of the East European reactions also provides an indication of the dominant party attitudes on independent reform movements and how to respond to them. The perception of the Polish initiatives as a threat to socialism leads to the conclusion that other domestic reforms of this nature would not be tolerated by current regional leaderships. Finally, such an examination supports efforts to determine the impact of historical or contemporary national considerations on policies relating to this important regional issue. The nations considered here are East Germany, Hungary, Czechoslovakia, Bulgaria, and Romania, the active East European "Bloc" members.

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Polish Socialism and World Peace

A common thread in the view expressed by these nations was that the Polish reform initiatives were inspired and supported by foreign sources. Numerous accounts cited radio transmitters delivered to Solidarity from Western sources and Western Xerox machines used for quick distribution of leaflets, both items which were presumably delivered in containers labeled as "toys" and "food." When Solidarity broadcast a message from hidden radio facilities in April, 1982, the Central Intelligence Agency, Radio Free Europe, and Western anti-communist intelligence centers were given responsibility. Bulgarian reports hinted darkly about the "exceptionally generous" help from the West that Solidarity was receiving and the Bulgarian party daily *Rabotnichesko Delo* charged that the United States and Solidarity were actually working together for counterrevolution in Poland. A Czech account referred to reform leaders who "had established various contacts with centers of right-wing socialist democracy as well as Trotskyism in the West."(1) Another described the arrest of an Austrian attempting to pass through Czechoslovakia with a duplicating machine and paper intended for Polish dissidents three months after the imposition of martial law.(2) In April, the Czechs accused "Belgian radicals" of staging a provocation in Prague designed to generate sympathy for Poles and declared that Western tourists were being sent into Eastern Europe with money to support Poles resisting martial law.(3) Hungarians were less specific, but frequently warned of the "outside support" for Polish counterrevolution.

Czechoslovakia was the clear leader in its advocacy of the proposition that Solidarity's activities were both foreign inspired and a grave threat to Polish socialism. In the Czechoslovakian view, "extremists" in Solidarity and related organizations were openly advocating a seizure of power and the overthrow of the Polish government. Plans had been made for implementing this program "in the immediate future," according to *Zemedelske Noviny*.(4) The Czechs were joined by the GDR, Bulgaria, and Hungary in accusing reformers of "counterrevolutionary intentions" while even the more moderate Romanians complained that the destruction of socialist state power was the real objective of "extremist" elements of Solidarity.(5)

The seriousness of the threat constituted by these reforms

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was underscored by dramatic claims that Walesa's organization had formed "intervention groups" engaging in counterrevolutionary activities at the time martial law was imposed. Walesa, authorities, charged, planned a quick move by his "storm-troops" to seize industrial areas and force workers to oppose the government. "Violent acts" against the party and the government were supposedly set for December 17.(6) An East German report described a "Solidarity arms depot" consisting of hand guns, a grenade launcher, and a wide variety of military equipment discovered hidden in a Polish repair shipyard. The GDR's Socialist Unity Party (SED) suggested that Western revanchists had hoped to revive "Hitler's New Order in the East" by utilizing the Solidarity movement. Martial law, the SED insisted, was opposed most vigorously by those "who marched when Hitler's boots trampled Polish soil underfoot and Polish blood flowed."(7)

Less dramatic but more consistent was the accusation that Solidarity was driving Poland toward civil war. On December 15, the Hungarian journal *Nepszava* introduced this charge with its declaration that Poland was on the "brink of civil war" beacuse of the activities of Solidarity. The imposition of martial law, Hungarian leaders Janos Kadar stated, "raised a barrier before the hostile forces efforts for a civil war ...."(8) Though not joining in the more colorful and dramatic charges introduced by the Czechs and the East Germans, the Hungarians regularly asserted that the Polish socialist system was endangered by the nation's independent reform movements and charged that dissidents had prepared a list of individuals who would constitute a new Polish government after the socialist regime was overturned.(9)

Establishment of a new government, we were told, was not to be a peaceful event but rather one characterised by a violent "settling of accounts" with the Communists. East German, Czech, and Bulgarian reports spoke of plans for murdering various party and governmental leaders seen as stumbling blocks against counterrevolution. Terrorists groups, they explained, had detailed instructions involving the "physical extermination" of Communists as a prelude to the destruction of Polish socialism.

Only the Romanians refrained from joining in this chorus of ominous revelations. While their regime is one of the most rigid and Stalinist in Eastern Europe, Romanian authorities

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maintained a moderate and restrained position of the nature of the threat to Polish socialism. Their most forceful statements avoided references to civil war and plans for murder, referring instead to the "baleful evolution of the activity of anti-socialist forces," which was producting "disorder in economic life," chaos in social and political affairs, and threats to Poland's "progress, freedom, and independence." Four factors were consistently cited, generally in order of importance, as explanations for the difficulties faced by Poland: economic shortcomings, social failures, bad weather, and, finally, "extremists." (10) At the time of his meeting with Jaruzelski in June, 1982, Romanian President Nicolae Ceausescu limited his references to the events of 1980-81 by merely citing the "difficult situation" which existed then.(11)

A final and especially important element of East Europe's threat perception framework was the suggestion that the fate of Polish socialism was inextricably linked with that of world peace. According to *Neues Deutschland*:

> Reactionary circles of imperialism sought to play the "Polish card" so as to alter the political map of Europe ... By breaking Poland out of the structure of the Warsaw Pact, they wanted to cause the edifice of the European postwar order ... to collapse.(12)

While meeting with Polish United Workers Party First Secretary Wojciech Jaruzelski in East Berlin on March 29, SED General Secretary Erich Honecker denounced the Western policy of "confrontation and arms escalation." The U.S., he charged, is "even toying with the idea of using nuclear weapons." Honecker explained that these efforts had been thwarted, if only temporarily, by Jaruzelski's imposition of martial law and the subsequent removal of a pretext for Western intervention. In toasting the Polish leader, Honecker exclaimed, "in this way, Dear Comrade Wojciech Jaruzelski, dear Polish comrades, you did a valuable service to the Polish nation and to socialism and peace."(13) When Jaruzelski visited Czechoslovakia on April 5 and Hungary on April 21, he was the recipient of similar encomiums from Gustav Husak and Janos Kadar. Husak insisted that both Polish political stability and world peace were threatened by unrest in Poland while Kadar, in more restrained language, accused the West of questioning post-World War Two "realities."(14)

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The Emergence of a Bloc Consensus

Just as Poland's five Warsaw Treaty Organization neighbors enjoyed a general consensus regarding the threat to Polish socialism, they were in basic agreement that martial law was both necessary and, over the following months, successful. None joined the Communist critics in Italy and Yugoslavia who complained that imposition of a state of emergency was an error. None displayed the agonizing uncertainty characteristic of the Western allies contemplating their responses to Jaruzelski's actions. There was general support for martial law although there were variations in the enthusiasm of that support.

The Romanian leadership was most reserved in offering its endorsement of Warsaw's actions. The Romanians viewed martial law as a necessity since the Polish people had finally exhausted their patience but suggested that martial law by itself was insufficient as a restorative for national unity. Only a "strengthening of the active participation of the working class" would do that, they insisted. This assertion appeared in numerous Romanian statements and must be regarded as an implied criticism of the actions associated with the state of emergency. As a criticism, however, it is very limited and not nearly as fundamental as the suggestion of the non-Bloc Communists that the "democratic path" was the appropriate one for Poland.

Hungary was also somewhat restrained in evaluating Jaruzelski's imposition of a state of emergency. The Hungarian leadership accepted the necessity of martial law but cautioned that the nation had a long way to go before restoring tranquility and order. *Nepszabadsag* obeserved that the state of emergency had, however, "created the prerequisites for a gradual restoration of the economy, for reforms, and ensuring public order and strengthening the state."(15) Politburo member Sandor Gaspar, the Secretary General of the Hungarian National Trade Union Council, nevertheless, indicated an official deviation from the hardline posture of Hungary's neighbors. Speaking to a national television audience, Gaspar identified what many in the Hungarian leadership see as one of the main lessons of Poland when he explained that if the socialist nations' trade union movement:

> ... Operates only according to instructions ..., if its task is merely implementing a given policy, ... this leads to social conflicts .... This is borne out by the events in Poland.(16)

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Aside from the Romanians and some of the Hungarians, the active Bloc members of the region emphasized the necessity of martial law and insisted that Jaruzelski's actions quickly created the necessary conditions for a restoration of Polish society. The Czechs, the East Germans, and the Bulgarians stressed that martial law was greeted with complete calm and understanding by the Polish people. Following the imposition of a state of emergency, according to their accounts, people in Polish cities were standing in lines in an orderly fashion awaiting their allotments of bread, milk, meat, and other foodstuffs. Within a few days the supplies of basic foodstuffs were said to be incomparably improved from what they were before martial law.(17) The popular reaction to martial law, the hardliners insisted, was one of indignation against the leadership of Solidarity rather than against those who imposed the state of emergency. Thus, the citizens of these nations were informed that the great majority of the Poles responded with "outrage" when they learned of the conduct of Solidarity activists. They were told that the "masks are falling" as Solidarity's "secret documents" were uncovered and that even Solidarity members were shocked upon learning of what the leadership had been preparing for the nation. Such disclosures, East European readers were informed, rapidly eroded political support for the Solidarity leadership in the days after martial law was established. When dissidents staged a series of anti-government demonstrations in several Polish cities in May, 1982, readers in the other East European states were informed that the popular reaction in Poland was one of indignation.

Most of Poland's neighbors have praised even the most extreme actions of the martial law regime. There was effusive praise for the efforts of the PUWP to "cleanse itself" of those who had betrayed it in the critical months before the imposition of martial law. The arrests of various "counterrevolutionaries" were reported as encouraging signs that the Polish situation was returning to normal. As the number of detentions rose, the Czechs and East Germans insisted with still greater confidence that Polish public life was "easing." However, even in the face of such optimistic accounts, words of caution and calls for vigilance were heard. Five months afrer the declaration of martial law, Bulgarian leader Todor Zhivkov declared:

> The internal and external enemies of socialism in Poland ... will continue to make desperate attempts to restore the

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> positions they have lost, to throw the country into the chaos of the counterrevolution again. The historical experience teaches that in such a moment the maximum vigilance must be shown and that firm and uncompromised acts should be taken against the enemies of socialism.(18)

In the view of the hardliners, Solidarity sought to perpetuate an atmosphere of tension through passive and even active resistance. The Czechs and others frequently complained that it was impossible to conduct a discussion with such enemies of socialism and that only direct, forceful action would deter them from their efforts to disrupt that Polish system. At the same time, Soviet spokesmen also insisted that the Polish counterrevolution had been stopped but not yet eradicated, thus endorsing the more militant East European positions.

Confrontation with the West

Poland's allies not only set out to resist the efforts of an internal foe but also those of an external enemy. The SED's Erich Honecker charged that "imperialist warmongers" had sought to use the events in Poland as a pretext for stepping up their "arms escalation" and further poisoning the international atmosphere.(19) The Western response to marital law in Poland, East European citizens learned, was prompted by frustration at seeing their plans thwarted rather than by any real concern for the Polish people. Czech spokesmen insisted that the Western powers had wanted a "reactionary, anti-Soviet Poland" ever since the 1940s. The American response to the Polish state of emergency was depicted as political and economic blackmail against the entire East European region in an effort by President Reagan to restore the privileged position once enjoyed by the United States. Reagan, the Czechs complained, wanted to reverse the "defeats and failures" that were a product of the era of detente and return to "cold war" confrontation. The East Germans joined the Czechs with their denuciation of a "virulent anti-Polish campaign" being staged in West Germany while Bulgaria accused the United States of dictating to its allies.(20) When the lack of Western unity became apparent, East European statements gloated over the increasing resistance to American pressures for sanctions against Poland and the USSR. In March, Honecker spoke of the failure of the "massive pressure" being mounted by the increasingly isolated Americans on their European allies. Western Europe,

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East Euoepeans were informed, simply refused to join in a new "cold war."

Nothing generated a more unified East European response than the Western effort to impose economic sanctions against the USSR and Poland. The most fundamental argument against the sanctions was that they represented an effort to interfere in the internal affairs of Poland since the decision to implement martial law was a "sovereign" one made by the Polish leadership itself. A further response was based on the proposition that the United States was guilty of cynicism and hypocrisy in advocating sanctions. After all, many commentators observed, the United States was supporting a dictatorship in Chile. "This hypocritical policy," in the view of Czechoslovakia's Gustav Husak, "reveals the true intentions of the enemies of socialist Poland."(21) Not only is this policy hypocritical, but, the East European analyses explained, it is extremely shortsighted because the trade ban would have a boomerang effect that would make it just as costly to the West as to Poland and the Soviet Union.(22) In general, the official attitude about the Western sanctions was that they were unwise from even the Western point of view and constituted a violation of the spirit and letter of the Helsinki agreements.

"Proletarian Assistance" for Poland

In spite of the hardships that faced the Polish people throughout the winter following imposition of martial law, there is general agreement that the famine and devastation many feared did not occur. In early spring, East European accounts were attributing this to the success of the generous "proletarian assistance" given to Poland by its neighbors. The verbal contributions discussed above, of course, were satisfying to the political position of the Jaruzelski government but they did little to alleviate the very real economic problems facing the nation. As *Mlada Fronta* editorialized in April, "practically the entire socialist community is today coming to Poland's assistance."(23)

The use of the term "proletarian assistance" was significant in describing the East European relief mission for Poland because it helps make an important ideological point and serves as a useful contrast with Western disunity. The East German effort was the best example of a productive, well-organized program that made ideological and political points while also

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easing the suffering of the Polish people. A special account for Polish aid was set up at the East Berlin savings bank and contributors were thanked with the reminder that all "donations confirm an internationalist affinity." The other nations of the region conducted extensive campaigns to get their citizens to donate food, clothing, and toys for the Poles.

During the six month period following the martial law decree, a series of trade protocols between Poland and its neighbors and visits by Jaruzelski with the other East European leaderships confirmed the seriousness of the intention to relieve Polish difficulties through "proletatarian assistance." Unanimity was again the rule as Czechoslovakia, Romania, Bulgaria, Hungary, and East Germany all participated in these ventures. In May, Bulgaria demonstrated the enthusiasm of the region when it announced a new five-year plan calling for a 27% increase in trade with Poland.(24) This was consistent with the closing statement of the January, 1982 CEMA Comsission for Cooperation in Planning statement which called upon all member states to contribute to a multilateral assistance program to help Poland overcome its difficulties.

Summary

Although there have been some variations in tone, the dominant reaction of official Eastern Europe to the Polish crisis has been one of broad support for Jaruzelski's martial law regime. This support has taken the form of both political as well as economic initiatives, all of which – taken together – help with the formualtion of a consensus about how to deal with the Polish events. Czechoslovakia and East Germany have been the most intensely and consistently dogmatic in evaluating the nature of the threat to Polish socialism and in advocating responses to that threat. Different circumstances have led these regimes to adopt policies of extreme hostility toward the Polish reformers and their Western sympathizers. Some observers suggest that the traditional Prussian view of the Poles as "rabble" might help explain the intensity of GDR policy. East German insecurity as a result of its geographic location and its somewhat uncertain heritage is another. The prospect of geographical isolation as a result of a Polish "heresy" culminating in a repudiation of socialism, however unlikely that prospect might be, must alarm the SED. The GDR's unannounced state of emergency in January was an illustration

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of the depth of the nation's concern.

Memories of the "Prague spring" of 1968 help explain Czechoslovakia's attitudes. On the one hand, there must be some fear that Polish events might reawaken the reformist spirit in Czechoslovakia, especially among the young who did not have to endure the hardships that resulted from Dubcek's effort to build "socialism with a human face." On the other hand, there are memories of Polish participation in the Warsaw Pact invasion of Czechoslovakia in 1968 and the Polish occupation of Northern Moravia in 1938-39. In addition, the role of the Polish church seems to rekindle some of official Czechoslovakia's fear of its own church. According to Czech commentators, "it is no coincidence" that the people taking part in provocative rallies in Poland "either emerged from or entered Catholic churches." The Catholic churches, we are told, "have not missed one single opportunity to stir anti-state and anti-socialist moods among the believers."(25)

The traditionally pro-Russian attitudes of Bulgaria and the leadership's rigidly doctrinarie inclinations support its inclusion among the most enthusiastic supporters of martial law. Hungary also is found among the hardliners, although its support was sometimes less consistent. On the role of the trade unions, for example, the Hungarians were somewhat inclined to sympathize with the frustrations experienced by Polish unionists. Bulgaria and Hungary differ in that Bulgaria has not experienced strong liberal or reformist episodes whereas Hungary was involved in an extemely disruptive one in 1956. The bitter enperiences of 1956 and Hungary's successful rebuilding of labor relationships give the leadership genuine fears of the consequences of an uncontrolled reform movement. For Bulgaria, the problem is more academic and remote, a factor which helps reduce the intensity and amount of rhetoric devoted to Polish affairs.

Only Romania demonstrated any consistent moderation in its assessments of the Polish crisis. Romania's frank and balanced analysis of Polish problems — and the placement of "extremists" in a fourth position of importance — indicates at least some willingness to defy the dominant line. Yet, the Romanians are still, for the most part, supportive of the martial law regime, especially on fundamental matters of the relationship between the party and society.

Eastern Europe's assessment of the Polish crisis confirms the

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continued existence of political orthodoxy throughout the region. Pluralistic trends color various social, cultural, and economic policies but they do not extend to questions affecting the determination of the proper relationship between the party and other fundamental institutions. From Romania to East Germany, Solidarity was viewed as a threat to Polish socialism because it operated effectively, with wide popular support, and beyond the party's restraining hand. Regional evaluations of the necessity for martial law and the results of that policy once implemented show that there is a consensus on the required and acceptable methods of retaining control over domestic developments. The exceptional unity of the response to Western proposals for economic sanctions demonstrates the limits of diversity in international affairs when the party's methods of domestic governance are questioned. Finally, the program of "proletarian assistance" advances the conception that the Warsaw Treaty states comprise a unified community which adheres to a common "international class affinity" and exhibits an active concern for the problems of fellow member states. The lessons of this crisis will undoubtedly be valuable to the other East European leaderships as the region experiences more of the pressures associated with rising indebtedness and falling productivity.

FOOTNOTES

(1) *Rude Pravo*, March 15, 1982, p. 2.
(2) *Mlada Fronta*, March 26, 1982, p. 7;
(3) *Rude Pravo*, April 23, 1982, p. 2.
(4) *Zemedelske Noviny*, January 7, 1982, p. 2.
(5) *Scinteia*, December 15, 1981, p. 2.
(6) *Rude Pravo*, January 13, 1982, p. 6.
(7) *Neues Deutschland*, December 23, 1981, p. 1.
(8) *Nepszabadsag*, April 22, 1982, p. 1.
(9) Ibid., December 16, 1981, p. 2.
(10) *Scinteia*, December 15, 1981, p. 7 and December 26, 1981, p. 1.
(11) *Foreign Broadcast Information Service Daily Report: Eastern Europe* (hereafter noted as *FBIS:EE*), June 7, 1982, p. H3.
(12) *Neues Deutschland*, March 25, 1982, p. 2.
(13) Ibid., March 30, 1982, p. 2.
(14) *FBIS:EE*, April 6, 1982, p. D9 and April 22, 1982, p. F3.
(15) *Nepszabadsag*, January 9, 1982, p.10.
(16) *Nepszava*, February 7, 1982, p. 3.
(17) Bratislava *Pravda*, January 4, 1982, p. 5.

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(18) *FBIS:EE*, May 21, 1982, p. C5.
(19) *Neues Deutschland*, March 30, 1982, p. 1.
(20) ADN, January 6, 1982 and *Rabotnicheska Delo*, December 26, 1981, p. 7.
(21) *Rude Pravo*, April 6, 1982, p. 2.
(22) Bratislava *Pravda*, June 19, 1982, p. 7.
(23) *Mlada Fronta*, April 5, 1982, p. 3.
(24) *FBIS:EE*, May 19, 1982, p. C5.
(25) Slovak *Pravda*, May 7, 1982, p. 7;

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ON EQUALITY, EQUITY, ECONOMIC WELLBEING AND DIGNITY: AN ECONOMIST'S VIEW

By Oleg Zinam

The inequality of human abilities and needs as well as the inequality of distribution of wealth and income has been known to man since time immemorial. Only in relatively recent times has the notion of equality of all men before the creator and before the law become widely accepted. The contemporary "revolution of rising expectations" has contributed to the widespread belief that all human beings have certain inalienable rights, among them, the economic right to enjoy a minimum standard of living which is necessary to maintain human dignity.

It is the major purpose of this paper to analyze 1) concepts of economic equality and equity, 2) their impact on economic efficiency, and 3) the implications of economic efficiency for economic wellbeing and human dignity.

Economic equality in terms of equal distribution of wealth and income never existed and is almost impossible to establish and maintain without complete destruction of human freedom. This notion of economic equality is so strikingly unrealistic that even the strongest modern advocates of redistribution of income and wealth in favor of the poor and disadvantaged deny that their proposals are founded on the belief in factual economic equality of all men.(1)

Economic inequality is twofold. On the production side, people are endowed with different abilities and capacities for efforts. On the consumption side, the differences in human needs are as striking. This economic inequality has its deep roots in the biological realm. "Human beings are biologically unequal," wrote Wallich, "the equality that the constitution speaks of is one of rights, not of condition – before God and the law, not in the market place."(2) Schumpeter finds the basis for this inherent equality of humans in Christianity which stresses "intrinsic value of the individual soul, a value that admits of no gradations." Yet, "in the sphere of empirical analysis," he wrote, "there is hardly any rational warrant for exalting it into a postulate."(3)

Among many objections against economic equality the following three are the most prominent. First, the equalization

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projects might prove fruitless. On the national level, such an equalization might lead to punishing the rich and middle class without enriching the poor. Internationally, if all the wealth of the rich and poor nations were divided equally among all the peoples of the world, improvement in the standard of living in poor lands would be insignificant. The technically advanced wealthy nations, however, would suffer from a disastrous decline in productivity. Moreover, according to Wallich, such "thoroughgoing egalitarianism leads to 'social entropy'." This is equivalent to "the reduction of incomes, living habits, wishes and ideas to a common denominator – the strangling of creative differences, decisions, ambitions." "Few among us would want to put a stop to creative change," he said, "but more than a few would seem to be unwilling to pay the price in terms of inequality, that change demands."(4) The result of such a drastic equalization would lead to generalizing misery instead of preventing it.

Secondly, since there exist natural differences among people which require economic differentiation, equalization would lead to natural injustices. Both Plato and Aristotle believed in natural distinctions among human beings. Plato's *Republic* (5) postulates differentiation among people based on their innate intelligence. Aristotle, in a similar vein, stated that distribution in a society must reflect the differences in the characteristics of individuals and of the goods which are distributed.(6) Both Aristotle and his teacher, Plato, believed in natural distinctions among men and, therefore, condoned slavery as a natural phenomenon. Rousseau, one of the strongest advocates of economic equality, considered wealth the major political resource and claimed that no person can possess freedom in in inequalitarian society.(7) In response to Rousseau's egalitarianism based on the state of nature, Burke used exerpts from the bible to prove that economic equality is not natural and rejected Rousseau's specualtions about the justification of social change based upon nature.(8)

The third argument against economic equality is that the pursuit of equalization is in conflict with other human values. Contrary to Rousseau who believed that freedom is impossible without a high measure of economic equality, Hayek contended that governmental attempts to reduce inequality would involve the use of coercion which would reduce freedom. In Hayek's words, "Equality before the law and material equality are ... not

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only different but are in conflict with each other: and we can achieve either the one or the other, but not both at the same time. The equality before the law which freedom required leads to material inequality."(9) According to Wallich, not only freedom but progress conflicts with economic equality: "equality has remained at odds with goals like progress or freedom"(10) The natural rights of individuals to engage in economic activity without governmental intervention were considered by Locke superior to all others. Any attempt of the state to abridge economic freedom in the name of redistribution of wealth or income would be a serous violation of the rights to one's life and private property.(11)

One of the greatest fears of opponents of economic egalitarianism lies in the effect of equalization of wealth and income on incentive, economic efficiency and productivity. If self-interest is the major incentive to production efforts, equalization would lead to lower production and to losses for both rich and poor. "Material incentive" in the form of wage differentials, piece-work incentives and bonuses for fulfillment of production norms are commonplace in so-called "socialist countries" which are frequently thought to be pursuing ecocomic egalitarianism. The negative impact on economic efficiency and productivity would lead to deterioration in "quality of life." De Jouvenel claims that "redistributionism" would weaken the position of the wealthy who now support art as well as intellectual and educational activities. The elimination of economic inequality would make artists and intellectuals dependent upon the state. As a result, the state would control the creative life of sociey.(12)

While economic equality can be established and measured, and while it is possible to trace the impact of pursuing goals of equalization of wealth and income on economic efficiency, freedom and quality of life, the concept of economic equity is purely qualitative and normative in its character. If inequality is a fact of life, how much of it is tolerable from the point of view of equity or economic justice? What is an equitable distribution of income and wealth? As Hayek sees it, "a demand for equality is the professed motive of most of those who desire to impose upon society a preconceived pattern of distribution."(13) "Most people will object not to the bare fact of inequality," he adds, "but to the fact that differences in reward do not correspond to any recognized differences in the merits of those

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who receive them."(14)

If people are so different in their capacity to contribute to economic production as well as in their consumption needs, what can be used as a general principle of just and equitable allocation of efforts and distribution of fruits of these efforts?

The range of possible principles is between two extremes. "Laissez faire" philosophy has based its allocative and distributive justice on the motto: "From each according to his will to contribute, to each according to his marginal product," while pure communism rests on the principle: "From each according to his ability, to each according to his needs." Interestingly enough, both philosophies accept economic inequality of human beings as a fact of life.

The first attempts to solve the problem of just allocation of efforts and distribution of rewards by "equal treatment of unequals." Free market economy sets the value of freedom above economic equality. It asserts that "the primary function of government is to prevent coercion and so guarantee to every person the right to live his own life on terms of free association with his fellows."(15)

The efforts to attain economic equality by "unequal treatment of unequals" might lead to an arbitrary redistribution of income and wealth by the political machinery of the state. If carried to their extreme, such processes can contribute to diminution of incentive and even to severe restrictions of individual freedoms.

The result of equal treatment of economic unequals is increasing inequality. In Plato's terms, "To unequals, equals become unequal."(16) As Hayek restated it in modern language, "from the fact that people are very different it follows that if we treat them equally, the result must be inequality in their position."(17) An additional problem here is the tendency to perpetuate inequality by reducing equality of opportunity. This is damaging to a free market economy which supposedly "thrives on equality of opportunity."(18)

One very difficult problem of a libertarian economy is to "reconcile economic inequality with our belief in political equality." "If one man rates one soul and one vote, why should he be worth widely varying amounts of dollars?(19) While "equal treatment of unequals" leads to the enhancement of economic inequality, all people in a nation should be subject to "equal treatment of equals" and violations of this rule should

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not be tolerated. Slavery, serfdom and violation of basic human rights of some segments of the population represent the intolerable situation of "unequal treatment of equals." (See figure 1 for graphic presentation of methods for handling equality and inequality).

Since some degree of economic inequality is unavoidable and inevitable, the question which must be answered is how much of it is desirable and tolerable. What is an optimum amount of inequality for a given society at a given point of time? In Wallich's words, "the range is wide, from literal and absolute equality to the equally implausible state of an Eastern potentate of the old days surrounded by a subsistence population." The optimum inequality is "very much a matter of opinion, no matter how willing one may be to surrender equality as a good in favor of growth."(20)

In search of an optimum inequality the real issue is not so much "which division, equal or unequal, is the more just ... [but] ... which of the two leads to higher welfare for all."(21) The issue is primarily functional, and only secondarily moral.

An extremely skewed distribution of income and wealth leaves the majority of the population on the level below one necessary for efficient productive efforts. Reduction of economic inequality, in this case, will augment economic efficiency and move economic performance toward the optimum point. If, however, income and wealth are continually equalized, the disincentive for the groups with reduced income and wealth will outweigh an increase in productivity of low-income groups and the efficiency of the system will start declining. Before the optimum point is reached, reduction in inequality would lead to higher efficiency. After this point has been reached, additional equalization would result in lesser efficiency. In technical terms, first, inequality and efficiency were acting as substitutes and later, after the optimum point was reached, they became complementary. (For a graphic presentation of these relationships see figure 2).

In addition to efficiency and its impact on human welfare via economic growth and development, the level of tolerable inequality depends on the level of a socially acceptable minimum standard of living which is closely related to such concepts as "economic wellbeing" or "quality of life." The problem arises when this level of inequality runs beyond optimum inequality defined in terms of economic efficiency. This situa-

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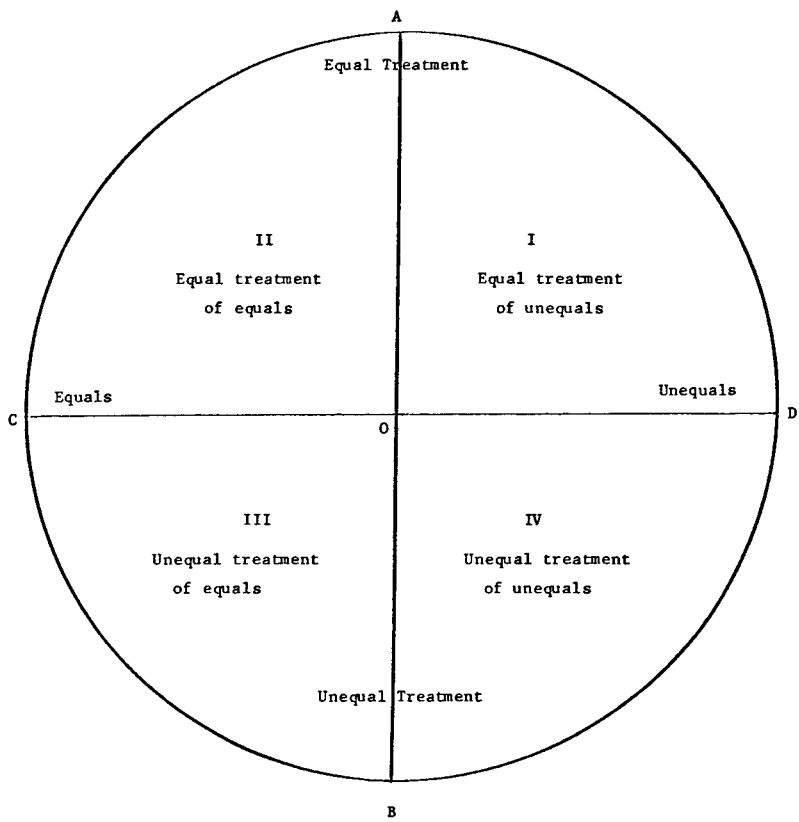
Figure 1

Methods of Handling Equality

and Inequality



Methods: I Equal treatment of unequals;
II Equal treatment of equals;
III Unequal treatment of equals;
IV Unequal treatment of unequals.

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tion might lead to a welfare load which the economy would be unable to sustain. The level of a minimum standard of living has rapidly risen in recent times due to the "revolution of rising expectations" which tends now to become a "revolution of rising entitlements".(22) People's increased appetite for a higher standard of living was not coupled with a proportionate rise in efforts to attain greater efficiency.

Economic wellbeing is only one aspect of quality of life. It is basic because satisfying economic needs is a necessary condition for survival. Yet, it is not the most important one. According to Maslow's need hierarchy, physiological needs are basic and primarily satisfied by economic goods and services. The others, like safety, belongingness and self-actualization, belong to the political sphere while love and esteem are included in the sociopsychological realm.(23) Improvements in economic wellbeing by means of increased income and wealth, enhance the economic power of the group and contribute to its "equality of opportunity." Moreover, such an enhancement of economic power is likely to shield it from unjust treatment by those in control of political and economic power.

Closely related to the "revolution of rising expectations" is the emergence of the belief that all human beings have their dignity just because they are unique persons. This human dignity implies safeguarding basic human rights. One of the most basic among these rights is economic security consisting in a certain minimal standard of living. It is a relatively recent development which connects economic wellbeing with human dignity and makes a tolerable "quality of life" a part of the total package of human rights. The notion of economic freedom prevailing in market economies becomes meaningful only if economic power is available. "Freedom: said Knight "means the right to do do what one is able to do, i.e. to use power, and has content only insofar as one possesses power."(24) What counts is effective freedom, defined as "availability of a range of choices among potentially effective preferences."(25) It represents a combination of freedom to do things with the power to do so.

If the minimum acceptable quality of life requires redistribution of income and wealth beyond the optimum point, it might also require a large increase of government control and increased coercion to enforce such a high measure of equality. There is also such a phenomenon as diminishing returns to

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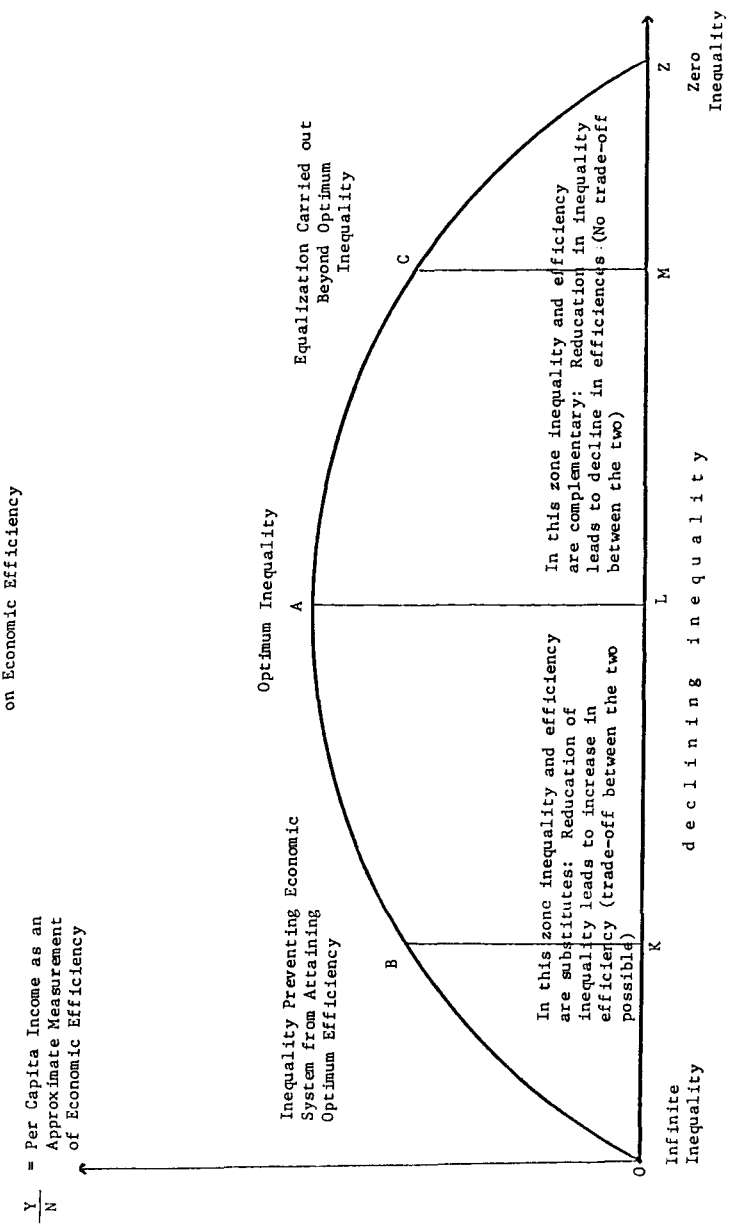
Figure 2

Impact of Decrease of Economic Inequality on Economic Efficiency



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overcentralization of governmental power and controls. On this ground alone, such a reduction of inequality might be objectionable. Yet, if one objects to the use of coercion in order to bring about a more even or just distribution wrote Hayek, "this does not mean that one does not regard these as desirable."(26) And it is difficult to disagree with Wallich when he states that "if man is the master of his fate, why should he not correct the consequences of biological inequality if he finds them unattractive."(27) The recognition of this combined with the capacity of humans to empathize with others and act according to their ability to remove gross deficiencies from their economies,(28) greatly contributed to the acceptance of large-scale equalization and welfare programs by the technologically advanced market and Western democratic-socialist economies. However, this tendency toward ever-expanding welfare, justified by the belief that "without economic security, liberty is not worth having,"(29) if carried too far, might undermine incentive and cripple the efficiency of the economy by imposition of excessive controls to enforce the equalization of income and wealth. Yet, without a healthy growth, no economy can indefinitely expand its welfare plans. In a static economy economic equalization means a painful redistribution of income. Growth is a better alternative because both the wealthy and the poor can improve their well-being without drastic reduction of incentives.

Thus, paradoxically, to alleviate inequity caused by inequality of wealth and income, society must maintain and preserve a degree of inequality required to provide incentive to efficiency and growth. Only a wealthy and growing economy can continue to expand and improve welfare. Any attempt to drastically increase welfare at the expense of incentive will undermine the former. Recent economic indicators in Great Britain and some Scandinavian countries seem to point out that the expansion of welfare and redistribution schemes were carried beyond the point of optimum efficiency and have contributed to a combination of inflation, decline in economic growth and an increase in unemployment.

This analysis of equality, equity, and their impact on economic wellbeing and human dignity leads to several conclusions. The most important of them can be summed up in terms of Wallich's dictums: 1) "The future of a free society depends on the preservation of beliefs that give room to creative in-

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equalities." 2) "We must furnish welfare without destroying initiative and provide security wothout doing injury to incentives" and 3) "To keep initiative and incentives alive, we must be prepared to accept a certain degree of inequality in our economic fortunes, after assuring as much equality of opportunity as we can."(30)

FOOTNOTES

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POLITICIANS, POLICY, AND PUBLIC OPINION

By James T. Bennett & Thomas J. DiLorenzo

Introduction

The results of the U.S. elections held November 4, 1980, were heralded by many as a major victory for conservatives or, at the very least, a serious setback for liberals. From a longer term perspective, however, the success of conservatives must be judged on the basis of their ability to implement changes in public policy that will alleviate the nations's pressing economic and social problems. Their election to public office may be a necessary condition for the adoption of alternative policies, but it does not by any means guarantee the success of their programs. Although in the United States conservatives may have been reasonably successful in the election battle, they may well fail to gain victory in the war to implement policy changes unless they give far more emphasis to winning public support for their programs. As economist Ludwig von Mises once said, "A social system, however beneficial, cannot work if it is not supported by public opinion."(1)

As discussed below in Section II, powerful vested interests have major economic stakes in every U.S. federal government program. Thus, in order to make significant changes in federal spending, it is essential that the public understands the need for and the importance of the necessary changes so that public opinion supports rather than subverts conservative programs. American conservatives, however, as shown in Section III, have in the past been far less effective than liberals in presenting their case to the public; in essence conservatives have not successfully countered the arguments of liberals by influencing public opinion. Some explanations of this phenomenon as well as prescriptions for change are provided in Section IV. The last section contains a summary and the conclusions.

II. Public Policy and Public Opinion

As every successful politician is aware, it is perilous to ignore the will of the majority of the voters. However, it is also true that the politician is by no means a purely passive participant in the political process, for the effective representative has the

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opportunity to shape public opinion from a position of elected leadership. If public policy is enacted without broad popular commitment, or leads to results which the majority of voters view as perverse, eventually sufficient dissatisfaction will be generated to cause voters to demand a change in their political representation. A strong case can be made that voter discontent with liberal policies was the primary cause of the conservative victory in the 1980 national elections.(2)

During the Carter administration, increasing difficulties became apparent in both foreign and domestic affairs. Internationally, U.S. prestige deteriorated and the defense establishment had become seriously weakened as spending on national defense declined from 9.3 percent of GNP in 1960 to 5.1 percent in 1979.(3) Domestically, both inflation and interest rates escalated to double-digit levels at the same time that recession and unemployment posed serious problems. Productivity fell and American products became less competitive in world markets while a swelling tide of imports threatened the survival of such basic industries as automobiles and steel. Simultaneously, taxes at all levels of government soared along with budget deficits. Despite record breaking public expenditures, there was little evidence of real progress in curing the nation's ills. The voter was disenchanted with a declining standard of living and increasing economic sacrifices that failed to produce positive results. Thus, after more than three decades of liberal programs, the voter began to question the efficacy of and need for ever-expanding government spending and regulation and expressed a desire for a change in the course of the "ship of state."

Overall, conservatives offered a significant departure from the political programs of the past: Waste, inefficiency, and fraud were to be eliminated from government programs; tax rates were to be cut to stimulate output and provide incentives to produce; monetization of government deficits was to be eliminated to help in bringing inflation under control; onerous and costly regulations were to be reevaluated and ineffective regulations scrapped to ease the burden on business firms and consumers; the size and scope of federal government were to be reduced. Other innovative measures such as enterprise zones to stimulate urban economic development, tuition tax credits, and a subminimum wage differential for youth were also proposed.

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Negative voter sentiment toward the ineffective policies of the past, however, cannot by any means be translated into widespread *positive* support for the alternatives advocated by conservatives, for there is a considerable difference between espousing changes in public policy in general terms and implementing specific changes. For example, even though most Americans would agree that there is an urgent need to reduce government expenditures and the federal deficit, but less accord is apparent when expenditure cuts are proposed for specific programs. The elderly strongly oppose cuts in social security benefits; the poor will resist any reductions in welfare payments; farmers will protest lowering or eliminating agricultural subsidies and programs. The list of pressure groups with porkbarrels that they view as sacrosanct is endless. The basic problem is that the benefits from federal expenditure programs are concentrated among recipient groups which have a strong economic incentive to avoid any reductions in funding whereas the costs of the programs are widely dispersed.(4) A given taxpayer or group of taxpayers has little incentive to lobby for reductions in expenditures for a particular program because the tax savings that might result would be very small. For these reasons, every reduction in government spending will be stringently resisted by program beneficiaries with little or no counter-opposition from the rest of the taxpaying public. In short, criticism of conservative policy changes will be vocal and intense, but praise will be muted and scarce.

For conservatives to produce changes that meet with public acceptance and approval, it is essential that the forthcoming criticism be diffused by communicating the positive aspects of the *overall* changes to the public. Basically, the American public must be educated about the negative aspects of current government policies and convinced of the efficacy of conservative alternatives. The only way that such a large-scale educational process can be accomplished is through the media – the only avenue which provides immediate access to large numbers of voters. Unfortunately, the record shows that conservatives, in the past, have had far less success than liberals in presenting their ideas to the public.

III. Political Coverage by the Media

For two important reasons, television is the most important medium for communicating ideas to the public: first, according

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to Roper Surveys, television is the prime source of news for two-thirds of the U.S. population and, second, television is ranked far higher in credibility than any other medium.(5) Thus, an important part of the battle of ideas between liberals and conservatives is the amount of exposure given to proponents of their conflicting ideas on television news broadcasts. Information on the content of the national news broadcasts of the three major networks (ABC, CBS, and NBC) is provided on a daily basis in the *Television News Index and Abstracts* published by the Vanderbilt University News Archive. This publication summarizes the news contents of each evening broadcast and reports the subject matter of news items, the person(s) who were the subjects(s) or the primary participant(s) in each item, and the total time exposure devoted to each news story. The *Abstracts* were analyzed for the year October 1, 1977 to September 30, 1978 – the period during which the Panama Canal Treaty was the subject of intense debate – in order to determine the relative effectiveness of liberals vis-a-vis conservatives in reaching audiences on national television news.

Table I contains a list of all 17 U.S. senators who received one hour or more of total exposure on national TV news broadcasts along with their ranking of political philosophy as gauged by the American Conservative Union (ACU). The ACU rates ultraliberals zero and ultraconservatives 100.

As is evident from Table I, only two senators with ACU ratings above 50 (Baker and Dole) obtained more than one hour of television news exposure during the year. These 17 senators in total were given far more exposure than all 83 others combined, so the conclusion that can be drawn from these data is straightforward: more liberal senators were far more effective in reaching the public through television newscasts than conservatives. Unfortunately, there is no way to assess how effectively the policy arguments are presented to the public; it is, after all, possible for a very persuasive case to be presented in a short broadcast segment that could effectively counteract a much longer presentation of an opposing viewpoint. Other things equal, however, it is reasonable to argue that the more exposure given to an idea by network news, the more convincing is the concept to the general public.

If the two extremes of the political spectrum are considered, a similar picture emerges. Table II contains data on television news exposure for the 15 most liberal and the 15 most con-

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Table I

U.S. Senators With At Least One Hour of Total Exposure on National News Broadcasts, Their Length of Exposure, and ACU Rating, October 1, 1977 - September 30, 1978

Senator	ACU Rating	Total Exposure Hrs:Min:Sec	Senator	ACU Rating	Total Exposure Hrs:Min:Sec
Baker (R, TN)	72	3:51:30	McGovern (D, SD)	5	1:28:20
Byrd (D, WV)	21	3:46:50	Dole (R, KS)	88	1:26:20
Jackson (D, WA)	13	3:23:20	Brooke (R, MA)	10	1:23:30
Kennedy (D, MA)	4	3:04:50	Case (R, NJ)	0	1:16:40
Humphrey (D, MN)*	6	2:11:50	Metzenbaum (D, OH)	13	1:15:30
Church (D, ID)	10	2:00:40	Nunn (D, GA)	46	1:12:40
Deconcini (D, AZ)	33	1:45:00	Proxmire (D, WI)	29	1:04:30
Abourezk (D, SD)	25	1:44:40	Long (D, LA)	19	1:03:00
Javits (R, NY)	4	1:30:30	Average	23.2	1:58:13

*Part-year; Humphrey died during the year.

Source: Compiled from Television News Index and Abstracts, various issues, 1977 - 1978.

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Table II

Network News Exposure for the 15 Most Liberal and the Most Conservative Senators for the Period October 1, 1977 - September 30, 1978

15 Most Liberal Senators			15 Most Conservative Senators		
Senator	ACU Rating	Total Exposure Hrs:Min:Sec	Senator	ACU Rating	Total Exposure Hrs:Min:Sec
Case (R, NJ)	0	1:16:40	Garn (R, VT)	100	8:50
Anderson (D, MN)	0	6:20	Curtis (R, NE)	100	4:30
Inouye (D, HI)	0	0	Laxalt (R, NV)	100	51:30
Matsunaga (D, HI)	0	6:10	Helms (R, NC)	100	24:30
Stevenson (D, IL)	4	8:30	Hatch (R, VT)	96	11:40
Clark (D, IA)	4	25:10	McClure (R, ID)	96	29:30
Culver (D, IA)	4	3:00	Scott (R, VA)	92	23:50
Sarbanes (D, MD)	4	6:00	Hansen (R, WY)	92	15:20
Kennedy (D, MA)	4	3:04:50	Wallop (R, WY)	92	6:50
Williams (D, NJ)	4	9:20	Bartlett (R, OK)	92	3:10
Javits (R, NY)	4	1:30:30	Byrd (I, VA)	92	0
Bayh (D, IN)	5	24:50	Lugar (R, IN)	92	8:30
Mathias (R, MD)	5	3:40	Thurmond (R, SC)	91	14:30
Hatfield (D, MT)	5	24:40	Tower (R, TX)	91	25:10
McGovern (D, SD)	5	1:28:20	Goldwater (R, AZ)	89	26:20
Average	3.2	37:12	Average	94.3	17:05

Source: See note to Table I.

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servative senators, as ranked by the ACU. Two points are immediately apparent from this table. First, ultraliberals received more than twice as much "airtime" as ultraconservatives over the course of the year and, second, the liberals apparently managed to develop key spokesmen for issues. Four of the liberals (Kennedy, Javits, McGovern, and Case) each received more than one hour of prime news time over the year, whereas none of the conservatives exceeded one hour of exposure – Sen. Laxalt received almost twice as much as any other ultraconservative senator, but, even then, his total was less than one hour. Taken together, Kennedy and McGovern received more attention from the national news networks than all 15 of the most conservative senators combined.

Though not definitive, the data in Tables I and II strongly suggest that liberals have been much more successful in airing their views to the public than conservatives.

IV. Conservatives and the Media

At best, it is very difficult to answer the question "Why do conservatives fail to obtain the media coverage given to liberals?" Thus far, no one has developed a comprehensive or even convincing "theory of the media" which can explain the behavior of reporters, pundits, and commentators. Several explanations of the "liberal media" may be offered and, although it is likely that all are incomplete and none is entirely satisfactory, there are elements of truth (or at least intuitive appeal) in each. For this reason, the discussion below must be considered suggestive rather than exhaustive and, if anything, the deficiencies in the analysis underscore the urgent need for research on the media, given the significance of the issues involved.

Among conservatives, conventional wisdom assumes that most members of the media are themselves liberal and, as a result of their personal biases, favor liberal points of view and discriminate against conservative positions. Witness the fact that George Wallace, Spiro Agnew, and others have attempted to create political capital by lambasting the "Eastern Establishment" and the media which publicized and gave credence to their views. The "liberal press" is a phrase often heard in conservative circles, always spoken in tones of considerable contempt and disdain. Few would disagree with the assertion that members of the media do, in fact, have liberal leanings,

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and that editorial policy as indicated by lead articles also frequently appear to be liberal, but blind acceptance of this explanation of why liberals receive more generous public exposure on television is fraught with danger for the conservative's objective of influencing public opinion through the media. Carried to its extreme, this view of the media generates an "us-versus-them" mentality and the antagonism associated with such a stance can be self-defeating. Even where the media is "liberal," it is essential that the powers of persuasion that conservatives must bring to bear on the general public also need to be generously applied to reporters and to television commentators. The old adage about catching more flies with honey than with vinegar is as true as it is trite.

Unless these facts are realized, the outlook for conservative policy positions reaching the public through the media is grim. Liberal personnel work for newspapers, television networks, and TV stations apparently because their managers and owners hire and tolerate such individuals. Under the constitutional dictum of freedom of the press, little can be done to alter this state of affairs.

The problem of media bias is far more complex than present media theory indicates, for while in general members of the media do not *make* news but only *report* it, biases can and presumably do influence the *selection* of news items that are reported. However, in preparing their reports, media personnel are customarily constrained by a very important characteristic of the news: it must be new – or at best appear to be new. For the vast majority of print and broadcast journalists, the planning horizon is, at most, 24 hours or even less – the Woodward-Bernstein type of investigative reporting that extended over a period of months is the rare exception in the media world. Because of the inherent perishability of news, the reporter is highly dependent upon information sources who supply items of news. Thus, one may refer to a "supply-side" theory of the media.

In the realm of national affairs, much of the supply of news is dominated by the "public affairs" departments of various government bureaucracies. Literally billions of tax dollars are expended annually by the federal government to publicize and justify its actions. Rare indeed is a news release that openly criticizes any agency's officials. As an illustration, consider the reporting on inflation which is routinely described as being

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caused by "rising prices" of milk, steel, cars etc. – anything but federal deficit spending financed by money creation by the Federal Reserve. CBS linked inflation with deficit spending in only 2.5 percent of its reports on inflation in a recent two-year period.(6) Further, CBS in recent years broadcast 200 stories on regulation, but only in 8 of these was it mentioned that regulation was costly to consumers. For decades, the bureaucracy has employed the media as a means of convincing the public that an expansion in the size and scope of government is desirable and, indeed, necessary, to deal with a host of social, economic, environmental, etc., issues. The media has little time or incentive to question the pronouncements of bureaucrats for to do so would undermine their primary source of information; even reporters are not disposed to bite the hand that feeds them.

Conservative senators also produce news releases and hold press conferences, but the evidence has shown that liberal members of Congress seem to be far more effective at airing their views on television. There are doubtless many interpretations of the fact that the supply side of the news tends to be dominated by liberals, but we believe that two factors in particular are very important. The first factor is related to the essential nature of television: The primary objective of television is to entertain, not to inform, the viewer. Public affairs programs such as Meet the Press, Issues and Answers, and Face the Nation have never drawn the substantial audiences accorded regularly to many prime time series of questionable quality. In the race for viewer ratings, the competing networks must also make the news broadcasts entertaining. Thus, at least to a degree, the content of the news is determined by its entertainment or commercial appeal and this favors the airing of liberal views. Stories of doom and gloom have always been the stock-in-trade of newspapers and television and radio news broadcasts. Because of the public's fascination with cataclysmic events, news broadcasts are "crisis oriented." Examples of such reporting are commonplace: the energy crisis, the health care crisis, the environmental crisis, and so on. Liberals have been more than willing to supply crisis grist to the media mill, for the existence (real or perceived) of a crisis generates the need for a government program to "do" something to avert pending disaster. Liberals employ crises as a means of expanding the size and scope of federal government activity and the media

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cooperate in publicizing the liberal view because crises sell newspapers and guarantee high ratings for news broadcasts. In contrast, conservatives stress a limited role for the federal government and recognize that many government programs cause more problems than they cure — a perspective with little potential for attracting wide audiences and advertising revenues. The conservative is placed at a competitive disadvantage vis-a-vis liberals because the "content" of the conservative's message is not as commercially attractive to the media. For this reason, the conservative needs to make even more determined efforts to attract media attention, but there is strong evidence that this is not the case; thus, a second reason that liberals dominate the supply side of the news is that they devote more resources to media activity.

Consider Table III where the salaries paid to media assistants by the fifteen senators who received the most television exposure and by the fifteen most conservative senators are compared. Liberals, according to the ACU ratings, dominate the list of those whose received the greatest coverage; with the exceptions of Baker and Dole, all of these senators were given ACU ratings below 50. The average ACU rating of those who obtained the most coverage was 25.5, markedly liberal, and an average annual salary of $24,843 was paid to staff members identified as press or media aides. By comparison, the fifteen most conservative senators paid their media assistant an average of $19,328 — fully 22 percent less than liberals with the greatest television coverage. Three of the conservatives did not explicitly identify any assistant whose primary responsibility was to deal with the media. In a supply-side explanation of the news, the media aide performs essential services in dealing with reporters, commentators, and pundits. Media aides prepare press releases and arrange for their distribution, communicate with media representatives to answer questions and explain issues, and, in general take steps to focus as much favorable public attention as possible on the senator and the issues which the senator supports. As shown in an earlier study (7), conservatives spend less on staff than do liberals in order to "save the taxpayer money," but such frugality is unwise and represents false economy, especially where media assistants, public opinion, and policy issues are ultimately at stake.

An additional point is worthy of brief mention. Much of the effort of media assistants is devoted to publicizing the activities

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Table III

Salaries paid to Media Assistants by the Fifteen Senators with the Greatest TV Exposure[a] and by the Fifteen Most Conservative Senators

Greatest TV Exposure			Most Conservative		
	ACU Rating	Salary of Media Aide		ACU Rating	Salary of Media Aide
Baker (R, TN)	72	$49,941	Garn (R, VT)	100	$13,425
Byrd (D, WV)	21	40,214	Curtis (R, NE)	100	4,260
Jackson (D, WA)	13	28,998	Laxalt (R, NV)	100	26,671
Kennedy (D, MA)	4	26,850	Helms (R, NC)	100	0
Church (D, ID)	10	35,845	Hatch (R, VT)	96	0
Deconcini (D, AZ)	33	27,457	McClure (R, ID)	96	31,162
Abourezk (D, SD)	25	10,964	Scott (R, VA)	92	0
Javits (R, NY)	4	38,861	Hansen (R, WY)	92	9,039
McGovern (D, SD)	5	5,102	Wallop (R, WY)	92	21,012
Dole (R, KS)	88	11,742	Bartlett (R, OK)	92	29,335
Case (R, NJ)	0	0	Byrd (I, VA)	92	43,139
Metzenbaum (D, OH)	13	21,331	Lugar (R, IN)	92	19,451
Nunn (D, GA)	46	34,003	Thurmond (R, SC)	91	26,146
Proxmire (D, WI)	29	0	Tower (R, TX)	91	19,198
Long, (D, LA)	19	41,349	Goldwater (R, AZ)	89	47,077
Average	25.5	$24,843	Average	94.3	$19,328

[a]Excluding Humphrey who served only for a portion of the year and Brooke whose media exposure focused more on his personal problems than on his political philosophy.

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and policy positions of the senator in the home state. Although it is unquestionably important to keep voters informed, this activity must be regarded to some extent as "preaching to the choir." Many voters support and share the senator's views, otherwise he would not have been elected. To advance political issues, it is necessary to concentrate much greater effort on a national, rather than a regional, audience where the number of potential converts is much greater.

FOOTNOTES

* The authors gratefully acknowledge financial support from the Earhart Foundation and the Sarah Scaife Foundation.

(1) George Koether, "The Wisdom of Ludwig von Mises," *The Freeman* (September 1981), p. 556.

(2) Professor Arthur Schlesinger has asserted that "what the voter repudiated in 1980 was not liberalism but the miserable result of the conservative economic policies of the last half dozen years." (*The Wall Street Journal*, November 20, 1980).

(3) U.S. Dept. of Commerce, Statistical Abstract of the U.S. (Washington, D.C.: Bureau of the Census, 1981), p. 258.

(4) The costs of government programs are both explicit and implicit. Explicit federal taxes are accompanied by the implicit tax of inflation when federal deficits are financed by expanding the money supply. In addition to the inflation tax, government borrowing and inflation tend to increase interest rates so that much private sector investment is "crowded out."

(5) Tom Bethel, Television Evening News Covers Inflation: 1978-1979 (Washington, D.C': The Median Institute, 1980).

(6) Bethel, op. cit.

(7) James T. Bennett and Manuel H. Johnson, "Why Conservatives Should Be Big Spenders," *Policy Review* 11 (Winter 1980), pp. 51-58.

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GOLD AND THE INTERNATIONAL MONETARY FUND

By Günter Wittich

Gold has been largely removed from the Fund's Articles of Agreement as a basis for transactions, and its role in the exchange system and as numeraire has been eliminated. This bare statement, however, fails to bring out the full implications of the changes in the role of gold brought about by the Second Amendment of the Fund's Articles. More important, it neglects the fact that gold remains an important asset among international reserves that must be taken into account in the Fund's mandated surveillance of international liquidity.

The breakdown of the par value system in the early 1970s led to a prolonged discussion of possible reforms of the system, including a gradual reduction in the role of gold. The main elements of the consensus on gold that eventually emerged in these discussions were:

* that there would no longer be an official price for gold;
* that the various obligations of member countries to use gold in transactions with the Fund would be abolished;
* that part of the Fund's gold holdings would be sold for the benefit of developing member countries; and
* that another part would be sold to all Fund members at the official price.

It was also agreed that there would be no action to peg the price of gold in the future and that the total stock of gold in the hands of the Fund and of the Group of Ten countries and Switzerland would not be increased. The latter agreement entered into effect in February 1976 for a period of two years; it was allowed to lapse in February 1978 in view of the then pending Second Amendment of the Articles.

The Second Amendment

As gold formed such a pervasive element in the original Articles of the Fund, the changes introduced by the Second Amendment were numerous. The most important of them are the following. Gold was eliminated as the common denominator of the par value system and as the unit of value of the SDR (special drawing right). Although there are now no par values,

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the amended Articles allow for the reintroduction of exchange arrangements based on stable but adjustable par values. Any new par values would, however, have to be expressed in terms of the SDR or of some other common denominator: as a legal matter, gold (or a currency) cannot be such a common denominator.

The Amendment also abolished the official price of gold of 0.888671 gram of fine gold per SDR by eliminating the definition of the value of the SDR in terms of gold. The value of the Fund's holdings of members' currencies is now maintained in terms of the SDR and the value of the SDR is based on a basket of currencies.

The elimination of the official price of gold also removed restrictions on dealings in gold among member countries. Before the Second Amendment, monetary authorities were not permitted to purchase gold at a price higher than that corresponding to the par value or to sell it at a lower price. Thus, in effect, when market prices differed from the official price, gold was unlikely to be used as a means of payment between monetary authorities. Under the amended Articles, there are no restrictions on the freedom of monetary authorities to enter into gold transactions among themselves or with the market, except for the general undertaking regarding world liquidity and the role of the SDR. Moreover, the Amendment explicitly forbade the Fund to restablish a fixed price for gold or to manage its price in the market. The Amendment, in addition, eliminated the obligatory use of gold as a means of payment to and by the Fund.

The use of the Fund's remaining gold holdings was regulated, and it was laid down that part of the Fund's gold holdings would be sold. For additional gold sales, the Amendment required a high majority (85 per cent) of the voting power. Subject to such a majority, the Fund can sell from its remaining gold holdings to countries that were members in August 1975 at the former official price in proportion to their quotas on that date or to members or others at a price based on prices in the market. The Amendment also specified potential uses for proceeds of the sales in excess of the former official price. These uses include temporary income-producing investments; assistance to developing members in difficult circumstances; and addition to the Fund's general resources for its normal operations, accompanied by a proportionate increase in quotas.

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The concern that dealing in gold by the Fund might seem to establish a new official price gave rise to the circumscription that gold sales be made "on the basis of prices in the market" rather than "at the market price": this was intended to specify that in its transactions in gold the Fund should seek to follow rather than determine or even direct prices in the markets. But the Amendment went one step further and included an undertaking that members collaborate with the Fund and with other members with respect to reserve assets, so as to achieve better surveillance of international liquidity and to promote the role of the SDR as the principal reserve asset in the international monetary system.

Gold Sales Program

When the Fund was founded, gold formed the ultimate reserve asset and it was considered important for the financial strength of the insititution that member countries pay part of their subscription in gold. A number of other payments, such as charges or specified repayments to the Fund also had to be made in gold. The Fund also acquired gold in a variety of other ways, including purchases from South Africa after the introduction in 1968 of the two-tier gold market arrangement, which entailed the separation of official from private markets.

At the time of the discussions on reform and on the future role of gold in the monetary system, the Fund's gold holdings were equal to more than 150 million ounces, or 4,710 tons. The Fund was, in fact, the second largest official holder of gold in the world after the United States. As part of the consensus on the reform and as a contribution toward reducing the role of gold, it was decided in 1975 that one third of the Fund's holdings, or 50 million ounces, should be sold.

The gold sales were carried out over the four years from June 1976 to May 1980. During most of this period, gold prices continued to rise. The Fund held 45 auctions in all, at prices very close to London fixing prices. Proceeds of these gold sales amounted to US$5.7 billion, of which $1.1 billion represented the capital value of SDR 35 an ounce which was added to the Fund's general resources. $4.6 billion represented profits that were channeled to the Trust Fund, which was established in 1976 to make balance of payments (BOP) assistance available to eligible developing member countries.

The Fund's gold sales program was completed in May 1980,

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and its present gold holdings amount to about 103 million ounces. These holdings contribute to the Fund's financial strength and to its ability to borrow additional resources to meet its members's needs. The requirement that further gold sales by the Fund be agreed to by a majority of 85 percent in the Fund's Executive Board presupposes very wide agreement among the Fund's membership that such sales would contribute to the achievement of its purposes.

A number of proposals have been made to use the gold still held by the Fund. These include, to cite a few, the resumption of gold sales to member countries at the former official price; further sales to the market and use of profits from these sales to provide BOP support to developing countries on concessional terms; use of gold sales profits to subsidize interest rates on drawings on the Fund by low-income developing countries; and transfers to strengthen the financial base of a substitution account that was proposed to allow substitution of international reserves held in the form of foreign exchange into SDR-denominated assets. None of these (and other) proposals so far has found the required broad support among the Fund's membership.

Valuation, Role in World Liquidity

Gold continues to form a substantial part of the international reserve holdings of a number of central banks. Since gold holdings are very unevenly distributed, the importance of its share in an individual country's reserve holdings varies greatly. Almost four fifths of official stocks are held by the countries of the Group of Ten (industrial countries); holdings of other countries are generally small in absolute amount and in relation to other forms of international reserves.

Although gold remains an important part of international reserves, a large element of uncertainty attaches to the exact value of gold holdings. Two factors in particular have introduced substantial uncertainty: the abolition of a fixed and guaranteed price at which monetary authorities are assured they can buy or sell gold and the narrowness of the private gold market and consequent potential for sharp fluctuations in the market price if sales of substantial amounts should be found necessary.

Monetary authorities, hence, are no longer certain that they can mobilize their gold reserves for settlement or intervention

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purposes at a known price. Gold can be used as collateral for loans from other monetary authorities or from commercial banks, but the value that will be attached to it is not known in advance.

It is therefore not surprising to find a great diversity in the valuation of gold in official reserves. Of the 109 countries reporting official gold holdings to the Fund, 56 countries, which hold about 48 per cent of reported gold reserves, continue to account for their holdings at the former official price. Of the 35 countries that value gold holdings at market-related prices, 22 use the latest market price, or an average of prices over a recent period, and 13 use market or average prices reduced by a discount which ranges from 5 per cent to 35 per cent. The remaining 18 reporting countries use a variety of other methods to set the value of their gold holdings.

Finally, members of the European Economic Community have deposited 20 per cent of their gold holdings and their foreign exchange reserves with the European Monetary Cooperation Fund in return for an equivalent amount – valued at market prices – of European currency units (ECUs), which means at least a partial market valuation by countries that had not already done so.

For the Fund, the question of valuation of gold arises in a number of contexts. The amended Articles prescribe the manner of valuation of gold for some purposes but for others leave the choice of method to a later decision. The valuation of gold under the amended Articles is thus not a simple or unitary one but rather one that permits the application of different principles as the circumstances may require. In its financial statements, for instance, the Fund continues to value its holdings at SDR 35 an ounce. The same value is used in connection with the Fund's financial operations with member countries, which call for a consistent and independent valuation of members' reserve holdings: when it extends loans in support of stabilization programs, the Fund uses SDRs and the currencies subscribed by its member countries. Particular currencies to be used during given periods are determined on the basis of members' balance of payments strength and reserve holdings. But for this judgment gold has to be valued consistently and thus independently of the valuation attached to it by the member itself. The Fund uses the price of SDR 35 an ounce for this purpose.

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Another difficult but important application of the valuation of gold is in the appraisal by the Fund of the adequacy of international liquidity. Such appraisals are undertaken periodically and published in the Fund's Annual Reports. They are also necessary in conjunction with decisions to allocate SDRs and in the quinquennial reviews of Fund quotas. Here the valuation of gold presents particularly difficult issues and rather than attempting to establish any general guidelines, the Fund has handled the method of valuation on an ad hoc basis depending on the purpose of the analysis. It has often been found useful to present more than one measure. In its Annual Reports, for example, the Fund in recent years has given data on gold holdings both in physical terms or at the constant value of SDR 35 an ounce and at market prices.

The valuation of gold in international reserves, whether for individual countries or in the aggregate, thus clearly has become more complex. It is also an area that is of great importance not only to individual countries, whether or not gold forms an important part of their reserves, but to the system as a whole. It is for this reason that one might expect it to be a question that will continue to be of concern to the Fund's member countries in order to promote a better international surveillance of international liquidity.

* This theme has been developed at greater length in an article by the author published in *Finance & Development*: September 1982/ Volume 19/ Number 3.

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BOOK REVIEWS

BARRY BRACEWELL-MILNES

Land and Heritage: The Public Interest in Personal Ownership
The Institute of Economic Affairs, London, England, 1982

> "The tax burden on heritage assets is a problem common to a number of industrialised countries. But it is aggravated in Britain by the exceptionally heavy structure of capital taxation ... In this country since the war a high-tax regime has been maintained, alleviated by reliefs for heritage assets too late and too grudging to prevent the destruction of buildings and the dispersal of their contents on a scale not experienced since the dissolution of the monasteries."

This damning judgement comes from Dr. Barry Bracewell-Milnes' new book which argues that there are strong public advantages in the *personal* ownership of land and heritage assets, compared with corporate or government ownership, apart from the intrinsic virtues inherent in private ownership of any form of property.

Dr. Bracewell-Milnes seeks to develop a welfare theory of ownership, stating that "Utility, the stuff of economic wellbeing in the traditional economic doctrine, is obtainable from ownership as well as consumption." He takes issue with the consensus among economists that ownership has value merely as "potential consumption" or the "power to consume." In contrast with consumption, ownership has more than one primary purpose: "Wealth is not valuable only as spending power ... The enjoyment of spending power provides a starting point; but other primary purposes, such as the perpetuation of the family name, may depend on this power's not being exercised."

Emphasizing the concept of wealth in terms of the basis of family security and psychological wellbeing, he continues: "Wealth can have utility even if the connnection with consumption is so attenuated as to disappear entirely." The author elaborates the concept of subjective illiquidity" to describe the nature of wealth invested in assets which for sentimental or other personal reasons the owner would be reluctant to sell

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even at a high price and on a ready market.

> Subjective or internal illiquidity implies that the wealth is invested in *personal* assets, which may be defined as those having a significantly higher value for the owner and his family than for strangers ... Personal assets acquire their *surplus value* through some form of association with the owner and his family or friends – family history, familiarity, work. (p.29)
>
> The surplus value created by the personal ownership of personal assets is destroyed if they pass to strangers ... Market value is diminished by their transfer to institutions. Personal assets are unsuited to impersonal saving of which the extreme form is ownership by the state or its agencies. (p.29)

The author considers that government ownership "is wasteful not only because running expenses are increased but also because *no one enjoys the benefit of ownership*; ownership is so widely dispersed among the citizens in their capacity as voters that the benefit is diluted to nothing." (p.29)

The Special Quality of Land

Dr. Bracewell-Milnes applies the general theory he has developed to the ownership of land, since: "There is no other major category of asset that possesses in similar degree the quality of increasing in value through *continuity* of ownership." (p.42) Furthermore, "Land is not only a *personal asset* ... it is also *proprietary wealth*, in the sense of being worth more to society when owned by private persons than by the state or its agencies." (p.41)

Showing also that the interests of third parties in land – employees, tenant farmers, potential new entrants to farming, residential tenants, neighbours, recreation-seekers – are generally best served by the personal landowner, Dr. Bracewell-Milnes turns his attention to heritage assets, and again emphasises that:

> The owner of a substantial town or country estate who feels he has been entrusted with a living entity embodying part of the nation's history, art or countryside lies under a heavier obligation not the less real for being self-imposed. His spendable income is reduced, not increased, by his ownership of heritage assets because of the requirement of funds for their upkeep. (p.80)

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There is a strong element of vocation in the ownership of heritage assets — in town as well as country — especially if inherited. And there is a strong public interest in vocational ownership since: "property costs less to look after when it is owned by an individual or a corporate body with a strong sense of identity, like a school or a monastery, than when responsibility is spread widely or divided among people with disparate or conflicting interests." (p.84)

Unfortunately, land is one of the easiest targets for public acquisition, and in Great Britain: "The thrust of tax policy during the present century has been increasingly hostile to the personal and family use of heritage assets. It has been exactly the opposite of what the public interest requires." (p.90) "Confiscatory taxes on heritage assets destroy a precious and irreplaceable asset in the knowledge and dedication of the historic owners. No one else will look after the property so well or so cheaply. The losers are not only the owners but the rest of the community as well." (p.106)

Regarding ancient homes, the author notes that: "The revenue from capital transfer tax on heritage assets is probably much less than the direct and indirect cost of the increased government responsibility for their upkeep imposed by the tax itself, let alone the loss to the public of buildings destroyed and their contents dispersed." (p.89)

Abolish Capital Taxation to Raise Revenue

Dr. Bracewell-Milnes attacks the "exceptionally heavy structure of capital taxation in Britain" for which "present reliefs are at best a partial palliative." He advocates the abolition of both capital gains and capital transfer tax as the ideal policy, arguing that capital transfer tax falls largely on the nation's assets and on its land heritage. In his opinion capital taxes should be abolished, or at least be reduced to such rates as can be paid out of *income* by any taxpayer. Such is the economic importance of private ownership of production and heritage assets that in the view of the author tax concessions on heritage assets may actually raise rather than reduce the yield of tax revenue.

This is perhaps one of the most important publications dealing with economic and social reality to have been published during the past decade.

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MARCIA J. SUMMERS et al. (Editors)
Our Chemical Culture
Schenkman Publishing Company, Inc., Cambridge, Massachusetts, 1982.

A useful survey of commonly used contemporary drugs and their physical and psychological effects, potential for dependence, use and abuse, and treatment. The drugs covered include: alcohol, cannabis, hallucinogens, inhalants, narcotics, depressants, stimulants, and tobacco.

The history of many of these drugs is briefly sketched. Thus:

> Alcohol was one of the first psychoactive substances to be discovered by humans. A brewery described in historical records dates organized production of the drug back to Egypt in 3600 B.C. Neolithic evidence for beer and berry wine dates to 6400 B.C., shortly after the establishment of the first agricultural settlements.
>
> Many of the controversies currently surrounding the use of alcohol also have ancient models. Around 2000 B.C. Egyptian military disasters occurred evidently because the soldiers were drunk before battle, a situation leading to restrictions of public wine sales, fines and property confiscations. But by 1500 B.C. heavy drinking by women as well as men was commonplace and socially accepted, By the twelfth century B.C. soldiers and priests received strong daily rations of alchoholic beverages from the Egyptian state. In China the first prohibition was enacted in the early part of the fourteenth century A.D., but the laws were repealed and then passed again dozens of times over the succeeding centuries.

The authors are not overly dramatic in their warnings about drug abuse, but seek to be objective. Thus they warn especially about dangers of drug-use by pregnant mothers:

> There has been much debate over whether certain drugs, notably LSD, can affect heredity by damaging or changing chromosomes. It is very difficult to get good, reliable results from the scientific study of this question. The effects of exposing LSD to generic preparations in a test tube cannot easily be compared to the actions of LSD in the human body. Also, studying users of street LSD offers little proof because of the impurities in street drugs and because such people often take a wide range of drugs,

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alone or in combination. In the few studies that have been done with pure LSD given to humans, no significant damage to chromosomes resulted. It should be pointed out that these studies were concerned with pre-pregnancy doses of LSD. Any drug taken during pregnancy, potentially, causes birth defects; the controversy, however, was concerned with chromosomal damage prior to pregnancy.

It is important to realize, however, that most drugs taken by a pregnant woman cross the placental barrier surrounding her unborn child thereby affecting the child as well as the mother. This is true not only of the drugs discussed in this book, but it is also true of over-the-counter drugs (such as aspirin) and prescription drugs which are not used for mood alteration. A mother who is physically dependent on alcohol, opiates or barbiturates will usually give birth to a physically dependent infant who must then be withdrawn from the drug in question under strict medical supervision.

In addition, the problem known as fetal alcohol syndrome (FAS) may result from the mother's drinking. The larger the amount of alcohol the mother drinks, the greater the chances are that her child will suffer from FAS. A child who has FAS will have an unusual facial appearance, growth deficiency, reduced mental capabilities and an increased possibility of any number of other major birth defects (such as cleft palate, heart malformations and club foot, among others). A recent study has shown that as little as one to two ounces of alcohol per day can cause FAS. What this means is that any woman who is pregnant, or even considering getting pregnant, should avoid *all* alcohol intake.

Some other drugs have also been indicated as teratogens (that is, they are capable of causing birth defects). Although it is difficult to tell if a particular drug is the cause of a malformed infant, or to predict that a drug will interfere with normal development, a pregnant woman should always be careful about using drugs of any kind (including tobacco and caffeine). Even an excess of some vitamins has been suspected of causing birth defects. Because the first three months of pregnancy are critical to the development of the unborn child, it is probably wise to avoid all drug use of any kind during this period, except those vitamins prescribed by the obstetrician.

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PRAVIN VISARIA AND LEELA VISARIA
India's Population: Second and Growing
Population Reference Bureau, Inc., Washington, D.C., Vol. 36, No. 4, October 1981

The enormous rise of the population of mainland China, estimated currently at around one billion, is only matched by that of the Indian sub-continent, comprising India, Bangladesh, and Pakistan. This book confines itself to the population of the largest of these three countries, India.

As of March 1, 1981, the population of India was estimated at 684 million, in contrast to only 344 million at the time of its independence from Britain in 1947. Its population has risen by 25% since 1971 alone.

The problems which have so far defeated attempts to stem this rapid growth, which is denying Indians the higher standard of living which technological improvements would otherwise have given them – and is also leading to ecological disaster – are discussed clearly:

> In 1978, partly in an effort to lower fertility, the minimum legal age for marriage was raised to 18 for women and 21 for men (up from 15 for women and 18 for men). This can only be an educational gesture, however, since enforcing such a law is virtually impossible with illiteracy so widespread, most people unaware of the law, and few with birth certificates or other documents to prove their age.
>
> The proportion of Indian women who have never married by age 50 is less than 1 percent, compared to a little over 5 percent in the United States in 1970, for example. The shortage of marriageable females partly explains this as well as the custom of arranged marriages which puts a duty on parents to find husbands for their daughters.
>
> The traditional ban on remarriage of widows, which could keep fertility lower than it otherwise might be, is observed mainly among the higher castes who make up only 10 to 20 percent of the population. Remarriage is still difficult for widows with children but the proportion of widows in the population has declined along with the general decline in mortality.
>
> With such a low average age at marriage and so few women remaining unmarried, India's current total fertility

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rate of perhaps just over five births per woman is moderate for a country in which birth control is still not widely practiced. Among the factors cited to explain this are low coital frequency and days of abstinence prescribed on religious grounds (or perhaps imposed by crowded living quarters, at least in urban areas), the separation of spouses when men migrate, and the custom of prolonged and almost universal breast-feeding which lengthens the infertile period after childbirth. Chronic malnutrition has also been cited as a factor in prolonged post-birth infertility but a recent careful evaluation of studies in Bangladesh and Guatemala suggests that this is unlikely.

Cultures differ in their impact upon social thought, and while China has had some success in lowering the birthrate the Indian government has so far had little success. Unless India's population problems can be solved, not only will the native population of India suffer, but the rate of migration of Indians to the Western countries will rapidly increase, legally or illegally, eventually creating social and economic problems which will expand far beyond the borders of the Indian homeland.

HARRISON BROWN (Editor)
China Among the Nations of the Pacific
Westview Press, Boulder, Colorado, 1982

The authors examine the role of the People's Republic of China in the Pacific, and conclude that neighboring nations fear the growing power of this oriental giant, representing a million people controlled by a single, centralized, totalitarian government. The major fears center around the following points:

1. China's one billion very poor people, living in a backward country, are seen as a demographic threat to Southeast Asia, whose fertile lands and natural resources could become increasingly attractive to the hard-working and dynamic Chinese .... The establishment of puppet governments by the Soviet Union and by Vietnam provides disturbing precedents. More ominous yet, the millions of illegal immigrants, "boat people," and other refugees demonstrate that traditional methods of migration control are obsolete and that even strong countries can be invaded

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by large numbers of spontaneous or forced migrants ....

2. Under the discipline of a strong government, a resurgent China is likely to assert its geopolitical influence in the region under any circumstances, but especially in the setting of the Sino-Soviet rivalry, with obvious implications for the freedom of its neighbors ....

3. Extensive territorial claims in the South China Sea are potential sources of conflict between China and Vietnam, Malaysia, and the Philippines. An ominous precedent was set in January 1974, when Chinese forces attacked and captured the South Vietnamese garrison stationed on the Paracel Islands ....

4. About 19 million overseas Chinese live in Southeast Asia as the result of spontaneous migration going back many centuries ....

In May 1978, following the exodus of some 200,000 Chinese from Vietnam to China, a new Overseas Chinese Affairs Office was established in Beijing, headed by Liao Chengzhi. Liao had been in charge of Chinese Overseas Affairs from 1949 until 1967, when he came under strong radical attack during the Cultural Revolution for "strangling and ruining the culture and education of overseas Chinese" and his office was abolished.

5. Last but not least, although Chinese leaders have repeatedly proclaimed that "revolution cannot be exported," the CCP maintains ties with communist parties in Southeast Asia that are committed to the overthrow of the national governments of their respective countries by subversion and armed struggle. In curious contrast with the pragmatic main line of Chinese foreign and domestic policies currently pursued under the leadership of Deng Xiaoping, China is still making available propaganda facilities to the clandestine communist parties of Southeast Asia.

J.A. NAIK
India and the Communist Countries
Humanities Press, Inc., Atlantic Highlands, N.J., 1982

Successive Indian governments have in general followed socialist principles since the country was granted independence under Nehru, and internally has sought to destroy India's own

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social, economic and political traditions. One of its earliest acts after gaining independence was to force the submission of the historically independent principalities which had never been a part of British India, and which mostly lived in a state of peace and contentment.

Similarly, in its foreign policy India has tended to adopt a collaborative attitude concerning the communist powers. This text is a reference work covering documents on India's relations with the communist countries in Europe, Asia and Latin America during 1976-78. It contains the full texts of speeches delivered by the Prime Minister, the President and the Minister of External Affairs and of the Joint Communiques issued on the occasion of their state visits to these countries. All the defence, economic, cultural, technological and scientific agreements that the government of India had concluded with the governments of the communist countries are included in this volume. In short, it contains practically everything on India's policy towards the communist countries and is an indispensable work for researchers, diplomats and journalists interested in the affairs of both India and the communist countries.

BRIAN CROZIER
The Minimum State: Beyond Party Politics
Hamish Hamilton, London, England, 1979

> "Bad government has become the rule in the democracies. We are getting too much government, but not enough good government, because political parties, competing for power, feel obliged to make unnecessary promises, while neglecting the three criteria which alone justify the existence of the State: the safety and security of the citizens, defence against external enemies, and sound financial management."

Crozier's final chapter is entitled "Dismantling the Welfare State" – in short, he openly discusses what has too often come to be regarded as "the unthinkable"! In his own words:

> Except in Chile, where the experiment was gathering impetus when these lines were written, no country has yet set out systematically to dismantle the Welfare State. And yet, the need to discard a system that is costly, wasteful and inefficient is patent and urgent. As I have said, it is not Welfare that needs to be discarded, but the in-

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discriminate provision of Welfare for all at the expense of the taxpayer.

His own answer to this problem is perhaps somewhat simplistic, but possibly superior to the presently rigid welfare structure which is so full of waste:

> The problem, then is to restore the price mechanism and the element of personal choice. There are various ways of doing it. One is the voucher system: every adult is issued with vouchers to a certain value, to cover, for instance, £150 worth of education or health care, leaving it to the individual to choose where to use it — which school to send children to, which doctor or hospital to use. Beyond a certain sum, the individual would have to find the money to pay the difference.

ANTONY FLEW et al.
The Pied Pipers of Education
The Social Affairs Unit, London, England, 1981

The authors examine the system of state Schools in Britain and conclude that state schools are not giving value for money. These schools have lost sight of their enormous costs and poor results. Most important, they insist, against all evidence, that good results follow greater expenditure.

Thus Antony Flew argues that there are inefficiencies in state education which are possible sources of savings and these savings would not reduce educational results though they would hurt educationists and teachers. The two themes that there is scope for expenditure reduction and that what is good for teachers is not necessarily good for pupils, are echoed in other chapters.

John Marks and Caroline Cox argue that what is good for schools is not necessarily good for Local Education Authorities. Schools could be more responsive to the wishes of parents, more adapted to local need and more educationally successful if the government gave parents the money to pay schools directly in the form of *Education Allowances*. John Honey argues that guaranteeing teachers and lecturers jobs for life pleases them but makes for poor teaching. Limited term-contracts and regular assessment of teachers would displease them but improve education and cut costs.

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Dennis O'Keeffe claims that the school curriculum serves industry and working class children badly. It is controlled by an educational elite which is insensitive to the interests of the instrumentally-oriented child and the applied-science requirements of industry. Graham Dawson suggests that this anti-business bias is taught to teachers during training by sociologists of education. Digby Anderson asks whether the sort of inefficiences the other authors find can be controlled by state assessment and injunction or whether they will only be reduced by making state education responsive to the market.

DONALD J. SENESE
Asianomics: Challenge and Change in Northeast Asia
Council on American Affairs, Washington, D.C., 1982

This book provides a concise yet perceptive view of the nations of Northeast Asia, their present role in world politics and the role of the United States in the Northeast Asia region.

The author concentrates his attention on the conditions of the key Northeast Asia nations following the Second World War — Japan was in defeat and economic ruin; Korea and Taiwan had suffered from half a century of colonialism and participation in the war in support of Japan; and China faced economic and political problems from the war with Japan and from a civil war led by the communists. A significant shift in power occurred when the communists took over the northern part of the Korean peninsula and triumphed in China in 1949.

The communist Chinese began a massive organizing campaign in order to turn China into a Marxist-Leninist-Maoist state internally and to make China a leader in bringing about a communist revolution externally. A major push to take over Northeast Asia came when North Korea actively aided by Mainland China, invaded South Korea in 1950. With the brave resistance of South Korea and assistance from the United Nations (principally led by the United States), the communists were driven north, South Korea was saved as a free nation, but Korea remained a divided country and a source of future tensions in the region.

The author discusses the two models available to Northeast Asian nations for economic recovery and growth. The "socialist model" led by the People's Republic of China and North Korea concentrated power in the hands of the Communist

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Party, subjugated human rights, and placed all economic and political activity under the control of the all-powerful state. Other nations which were non-communist rejected this model. Japan and the Republic of China on Taiwan adopted the United States system as a model following free enterprise with incentives for agriculture, industry and business. There was an emphasis on a democratic form of government with political, religious and economic freedom for the people. The author shows that after decades of trial, the "socialist model" has not brought economic prosperity and growth but only hardship and misery for the Chinese and Korean people. On the other hand, the "free enterprise" model has brought prosperity, freedom, and strength to Japan, South Korea and Taiwan.

The book contains an analysis of the internal politics of Mainland China and North Korea, focusing on the total control exercised by the communist leadership. Focus is on pre-Mao Tse-tung (Mao Zedong) China and post-Mao China. Despite a shift in emphasis and personnel, China still views itself as a communist state intent on leading world revolution. Under the new leadership, it seeks to build up its economy (preferably with help of the Western powers) before it takes further steps on the world stage. Caution is urged, since China may turn against the very nations which may assist it in its efforts to become a major economic power. There is a potent chapter on "Difficulties of the PRC embrace."

After viewing contemporary Asia, Dr. Senese makes a strong case for keeping Japan, South Korea, and Taiwan as allies of the Free World and out of the grasp of communist domination. He notes that in the aftermath of the fall of Vietnam, a move of isolation and noninvolvement swept the United States. As the realization set in that Vietnam was lost as a result of a lack of will to win by the United States, greater realism led to a reassessment of the American role in Asia. Although not an Asian power, the United States is a Pacific power and must preserve peace and security in the region for its own interest as well as for world peace. The challenge for the 1980s will be to assist Japan, South Korea, and Taiwan with security, trade, and support while the United States continues to take a leadership role in the area.

U.S. Representative Jack F. Kemp of New York praises the growth of Japan, South Korea and Taiwan as an example of a dynamic system of thought which looks to incentives for

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economic growth and he compares it to the early spirit which built the American economic system. It is this lesson, Congressman Kemp urges, that other nations seeking growth should imitate and not the socialist or no-growth models based on centralized control and no inventives.

The book *Asianomics* presents a fascinating story not only of developments in Northeast Asia but a clear lesson on what must be done to preserve freedom and security in this vital region of the world.

ALAN NED SABROSKY
Great Power Games
Council on American Affairs, Washington, D.C., 1982, $10.00

When there are three major world powers (the USA, the USSR, and Mainland China) it would seem inevitable that two of these powers would come into alliance against the third. That being the case, should Washington seek an alliance with Peking, or even Moscow? What is the most likely pattern of international relationships between Moscow, Peking and Washington in the foreseeable future?

Dr. Sabrosky here considers each of the three possible permutations: an alliance of Washington and Peking against Moscow; of Moscow and Peking against Washington; and of Moscow and Washington against Peking – with the latter controlling over a quarter of the world's population.

Following well-argued and documented reasoning, the author concludes that the only safe policy for the United States lies in an alliance between the USA and the nations of the Free World, since neither of the two great Communist powers can be relied upon to maintain lasting agreements or to abandon forever the temptations of world domination.

ANYA PETERSON ROYCE
Strategies of Diversity
Indiana University Press, Bloomington, Indiana, 1982

Attitudes toward ethnicity have changed dramatically over the years, almost to the point when to be lacking in an ethnic

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background is to be perceived as culturally disadvantaged. In this lively and lucid examination, Anya Peterson Royce defines ethnic identity, surveys the major schools of thought that have studied it, and establishes the importance of ethnicity in the contemporary world. A triad of power, purpose, and perception is offered as an organizing and explanatory device for dealing with ethnic interaction. The first half of the book highlights some of the larger institutional contexts that impinge on ethnic behavior.

Colonialism, nationalism, immigration, and internal migration affect the experience of ethnic identity at a level beyond the control of the individual. The second half of the book considers ethnicity primarily from the individual's point of view, exploring motivation, construction of symbols, tactics, and strategies. Ethnic identity is revealed as but one of many identities available to people that can be developed, displayed, manipulated, or ignored in accordance with the demands of particular situations. The author introduces original ethnographic material and provides new theories on the adaptation and durability of ethnic groups.

JON WAGNER (Editor)
Sex Roles in Contemporary American Communes
Indiana University Press, Bloomington, Indiana, 1982

To what extent have recent experimental societies sought to alter the traditional status and rights of the sexes, and to what extent have they succeeded? Has the twentieth century produced communes where men and women share power equally? Jon Wagner questions the view that communes tend naturally toward sex-role liberalization. In his overview of communal experiences in the nineteenth and twentieth centuries he traces the history of these societies and observes a trend toward rigidity. Based on original fieldwork, the six case studies that follow reveal that modern communes often feature inflexible and hierarchical sex-role systems.

Merrill Singer's study, "Life in a Defensive Society: The Black Hebrew Israelites," examines how an ideology of male supremacy can contribute to communal cohesion. In their effort to combat outside opposition and internal dissension, members of the Black Hebrew Israelite community have adop-

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ted a structure that includes the complete subordination of women to men.

Ilse Martin's chapter, "Inequality, Chastity, and Sign Endogamy in the New Age Brotherhood," shows that the conceptual system of inequality that is the basis of that California commune's socio-religious beliefs is not viewed by its members as sexist. Instead, they see it as an attempt to reestablish a balance of masculine and feminine forces in the universe.

Hans A. Baer examines the Levites of Utah – a splinter group from the Mormon Church that has established a number of small communes. For the most part the Levite communards differ little from mainstream Mormons in their attitudes toward women.

Barbara Mathieu's essay on the Shiloh Farms community of Tennessee reveals a group in which the patriarchal philosophy that informs communal life is somewhat modified by a belief in women's capacity for spiritual development and a degree of equality in economic functions.

The Farm, a communal utopia in rural Tennessee, is the subject of Bryan Pfaffenberger's study. The largest and most successful commune to emerge from the Haight-Ashbury movement during the 1960s, the Farm has – paradoxically, it would seem – developed a system of sexual relationships that seeks to return women to their primary biological function of bearing and nurturing children.

ANDREA BONNICKSEN
Civil Rights and Liberties: Principles of Interpretation
Mayfield Publishing Company, Palo Alto, California, 1981

Civil Rights and Liberties is a serious analysis of the principles that the U.S. Supreme Court uses in deciding civil liberties cases: their evolution, interpretation, and application.

Andrea Bonnicksen addresses these questions: What are the *guiding principles* of civil rights and liberties cases? When does the Court consider some rights *more important* than others, and why?

Through numerous case studies and examples, the author helps readers recognize and understand the principles on which the U.S. Supreme Court effectively determines civil rights laws. Readers are able to identify clues that will allow them to position conflicts and to understand how the Supreme Court is likely to rule on controversial civil liberties cases.

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MICHAEL P. JACKSON & VICTOR J. B. HANBY
Work Creation: International Comparisons
Renouf USA Inc., Brookfield, Vermont, 1979

The book contains papers on the development of work creation schemes in Britain, Sweden, Canada, West Germany, Holland and in Developing Countries. The papers have been written by experts from these countries. The editors have also written chapters discussing the whole notion of work creation, its origins, development and potentialities.

Increasing levels of unemployment have made the subject topical, but the effectiveness of the scheme as a long-term solution to the problem of unutilized labor is not fully investigated. This may be in part due to the fact that the authors tend to favor Keynesian notions, but it does not detract from the utility of the information gathered in this volume.

PETER PEEL
British Public Opinion and the Wars of German Unification: 1864-1871
International Research Institute, College Park, Maryland, 1981.

The author examines the causes which led to a change of alliances in Europe, with Britain abandoning its earlier pro-German sympathies in favor of a French alliance. It is postulated that this sentiment is an historical aberration in the long view of British history, and has proved catastrophic for Britain, Germany, and European interests generally. The expressed opinions of influential individuals – royalty, statesmen, politicians, and men of affairs – are adduced, but the principal emphasis is on the editorial positions taken by the major newspapers and the articles in literary journals, which, it is argued, are necessarily to be equated with "public opinion."

GREGORY BAUM
The Priority of Labor
Paulist Press, Ramsey, New Jersey, 1982

Pope John Paul II's encyclical *Laborem exercens* is a significant new development in the Catholic Church's teaching

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on social questions. Issued in September of 1981, the papal document argues that the present "capitalist" system in the Western world can no longer provide people with the basic requirements of their existence and that what is needed is a planned economy based on Christian socialist principles and international cooperation.

In his detailed commentary, Gregory Baum states that the encyclical is a dramatic "shift to the left" in Catholic social thought. He traces the origins of the letter to Emmanuel Mounier, the 20th century French personalist philosopher, and to certain aspects of Marxism.

The central idea of this historic encyclical is the priority of labor over capital – the belief that capital is meant to serve labor, which means it must serve those who make up the labor force.

Written against the background of the Polish labor struggle, and pointing to an industrial and economic revolution in the West, the encyclical and this incisive commentary is a valuable resource for all citizens.

WILLIAM G. WILLIAMS
Money-Making Meetings
Share Publishing Company, Annapolis, Maryland, 1982

A useful guide to the organization of and financial management of large meetings.

While the title places an emphasis on profit-making as a goal, it need hardly be said that financial efficiency also implies general efficiency, and the book is of value to anyone who is not an experienced conference organizer.

ELEANOR ENGRAM
Science, Myth, Reality: The Black Family in One-Half Century of Research.
Greenwood Press, Westport, Connecticut, 1982

Over the past several decades, economists, sociologists, and other social scientists have produced a large body of writings on the black family in America. Particularly since 1965, when

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the government published Daniel P. Moynihan's *The Negro Family*, researchers have devoted much attention to the "pathological" aspects of black family life. Now, the broad range of scientific literature on the institution of the family among American blacks is reviewed, and analyzed, by a writer who is both black and female.

Author Engram portrays her own image of the black family, and of family life as it is known and lived by millions of black Americans. In assessing institutional, demographic, and statistical analyses of black courtship practices, marriage, and child-rearing, Engram claims that social stereotypes and crude folkloric conceptions are evident in many studies but often provides arguments and informations which tends to reinforce rather than destroy the opinions she criticizes. There is a substantial and useful bibliography.

D. W. FORREST
Francis Galton: The Life and Work of a Victorian Genius
Taplinger Publishing Co., Inc., New York, New York, 1974

An unusually brilliant and versatile thinker, Francis Galton was involved in pioneering the development of psychological testing, radically improving the teaching of geography in England, and formulating the major genetic principle of the segregation of inherited characteristics. This thoroughly documented biography, the first in fifty years, displays complete familiarity with the many fields in which Galton worked and demonstrates the impressive range and originality of his thinking. A pioneer of statistical methodology, Galton may also be regarded as the founder of the eugenics movement. His fascination for precise measurements of the human body led him to launch the well-known journal *Biometrika*, and to become the founder, with Karl Pearson, of the Biometrical Laboratory at the University of London. He also pioneered the classification of fingerprints, along with that of other inherited physical characteristics.

His concern with eugenics led Galton to advocate that habitual criminals should be "resolutely segregated under merciful surveillance and peremptorily denied opportunities for producing offspring." As for "positive eugenics," Galton

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declared that "in seeking for the improvement of the race we aim at what is apparently possible to accomplish, and we are justified in following every path in a resolute and hopeful spirit that seems to lead towards that end ... To no nation is a high human breed more necessary than our own, for we plant our stock all over the world and lay the foundation of the dispositions and capacities of future millions of the human race."

Professor Forrest is especially helpful in stressing the frequency with which Galton was ahead of his time – preempting Freud with his charts of word associations, working with Darwin on the applicability of inheritance theory to Galton's own findings; and making genetic experiments that nearly paralleled Mendel's before the latter's were published.

Such a talented man often created bitter resentment for his intolerance of those who failed to maintain his own high standards. This is well illustrated by his disapproval of H. M. Stanley, who received funding from the Royal Geographical Society, but concentrated on the theatrical search for Livingstone rather than on the collection of sound geographical data. Since Galton had carried out geographical exploratory research of his own in Africa, Stanley's preference for journalism over serious geography led Galton to conclude that Stanley had accepted the Society's funding under false pretenses.

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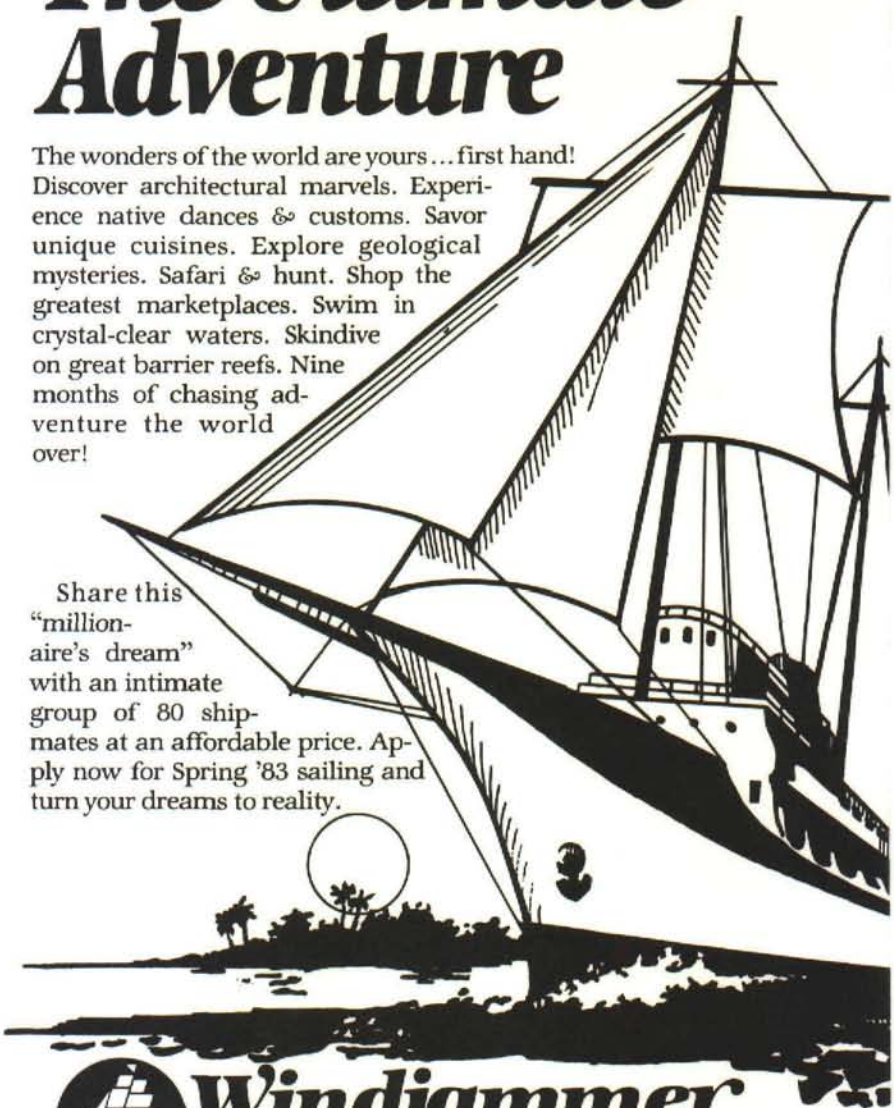

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